

# **TRANSCRIPT OF PROCEEDINGS**

In the Matter of:

**NATIONAL PETROLEUM COUNCIL MEETING**

Date: July 29, 1948.

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EXCERPTS "relative to exploration, production, refining, transportation marketing, or pricing of petroleum and its products outside the United States."

	<u>Exploration</u>	<u>Production</u>	<u>Refining</u>	<u>Trans.</u>	<u>Marketing</u>	<u>Pricing</u>
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Excerpts pertain solely to petroleum outside the United States - in the rest of the world - in any foreign country and abroad. Excerpts do not include any matter dealing with petroleum inside the United States.

Reading/km

NATIONAL PETROLEUM COUNCIL MEETING

July 29, 1948

Room 5164  
Interior Building,  
Washington, D.C.

The Council met at 10:00 o'clock a.m. in the Secretary's  
Conference Room, Walter S. Hallanan, Chairman, presiding.

Present:

Munger T. Ball  
Burt R. Bay  
Merle Becker  
Jacob Blaustein  
Paul G. Blazer  
Rush M. Blodget  
Reid Brazell  
J.S. Bridwell  
Bruce K. Brown  
E.C. Brown  
Russell B. Brown  
Howard A. Cowden  
Stuart M. Crocker  
E. DeGelyer  
J.C. Donnell, II  
Fayette B. Dow  
J. Frank Drake  
James P. Dunnigan  
Louis M. Faber  
J.B. Fisher  
B.C. Graves  
J. Parks Gwaltney  
George A. Hill, Jr.  
Eugene Holman  
D.A. Hulcy  
A. Jacobsen  
Frank H. Lerch, Jr.

W.G. Maguire  
B.L. Majewski  
J. Howard Marshall  
W.C. McGowen  
Brown L. Meece  
Rankin P. Peck  
Joseph E. Pogue  
Frank M. Porter  
E.E. Pyles  
Walter R. Reitz  
D.T. Ring  
Charles F. Roeser  
R.S. Shannon  
W.G. Skelly  
H.L. Thatcher  
W.W. Vandever  
Eric V. Weber  
L.S. Wescoat  
David Gray  
C.R. Williams  
Russel S. Williams  
Robert E. Wilson  
Henry E. Zoller  
Mr. Kittinger  
Mr. Foster  
Mr. Suderland  
Mr. Myers  
Mr. Watson

James V. Brown, Secretary.



P R O C E E D I N G S

The Chairman: The Council will please come to order.  
The Secretary will please call the roll.

(Whereupon, Mr. James V. Brown, the Secretary,  
called the roll.)

The Chairman: Gentlemen, I congratulate you upon your attendance at this session. It is beyond what we expected for July 29. It is a showing of interest in the work which the Petroleum Council is doing and hopes to continue to do.

You have had the minutes of the meeting of April 15, which was the last meeting, sent to you. Are there any remarks?

(There were no remarks.)

The Chairman: It has been moved that the minutes be approved and there was a second. All those in favor please signify by saying Aye; those opposed, No. It is so ordered.

We will now have the report of the Secretary-Treasurer, James Brown.

Mr. Brown: Gentlemen, the receipts during the first half of the year are as follows: \$71,122.56. These are primarily contributions.

The disbursements are as follows:

Payroll Gross	\$12,456.45
Less Social Security and Withholding Tax	1,540.48
	<hr/>
Net Payroll	10,915.97

Taxes	1,827.19
Meetings, Travel, Etc.	3,246.12
Postage	1,000.00
Telephone & Telegraph	2,697.30
Rent	3,750.00
Subscriptions	1,318.60
Office Supplies	3,499.47
Miscellaneous	141.46
Furniture & Fixtures	1,989.65
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TOTAL NET EXPENDITURES	30,385.76
	<hr/>
NET RECEIPTS OVER DISBURSEMENTS	40,736.80
Balance from Prior Period	15,208.83
	<hr/>
BALANCE AVAILABLE AND IN BANK AT END OF PERIOD	55,945.63

The Chairman: Gentlemen, you have heard the report. If there is no objection, the report is approved. All those in favor please signify by saying Aye. Those opposed, No. The report is approved.

The first order of business, gentlemen of the Council, is the report of the Committee on Government Royalty Oil Regulations. In the absence of the chairman, Mr. L.F. McCollum, the report will be presented by Mr. Shannon.

Mr. Shannon, will you please come forward?

Mr. Shannon: Mr. Chairman, this report is just an interim report. I am presenting it on behalf of Mr. McCollum for merely the information and consideration of the Council and without any requests for any action of the Council.

These recommendations on the regulations are the result

of consideration by a meeting of part of the Council out in Cody, Wyoming and it is the feeling of the members of the committee that after further consideration of these recommendations there should be another meeting of the committee, possibly the entire committee, and for that reason I do not believe that it is worth while for me to take up the time of the committee in reading the details of the report.

The Chairman: Would you please hit a few of the high spots of the report, Mr. Shannon?

Mr. Shannon: I think if we attempt to go into very much detail of the question, Mr. Chairman, that we get into quite a bit of discussion on the subject. In the first place this Act in regard to which these regulations are related is an act relating to giving the preferential right to small refineries in bidding on Government royalty oil. Mr. Edelstein of the Geological Survey was out and met with the Council and he gave us a figure of 23,000 barrels as the top daily production figure of Government royalty oil at the present time and probably for some time to come. This 23,000 barrels a day is not really a very large portion of our daily production. I do not believe that I should presume to read the details of these regulations. I do think with the other members, and there are several members of the committee here, that there should be a further consideration.

There are some other members here, Mr. Hallanan. Possibly

they might wish to say something.

Mr. Pogue: Mr. Chairman, I have a wire from Mr. Glen E. Nilesen, president of the Husky Refining Company who, I believe, is a member of this committee. He states as follows:

"I would appreciate your expressing my opinion that the disposition should be handled by the producer or operator of the leases. Public bidding fosters inflation and preferential legislation, I believe, is fundamentally wrong."

I wish merely to place that in the record.

The Chairman: I think that this report clearly indicates that this is an interim report and that a final report is contemplated to be submitted at the next meeting of the Council.

If there is no objection, we will receive the report at this time as an interim report and permit the committee to continue with authorization to complete its work and report at the next meeting of the Council.

Mr. Russel Williams: Do I take it from your statement that there will be a further meeting on this committee?

The Chairman: That is contemplated by the text of the report, Mr. Williams.

Mr. Williams: I am quite sure that a goodly number of the committee would like that very much because we were not of one mind at all in this meeting and we found that the

subject had a lot of diversified opinion and could not be handled hurriedly at all.

The Chairman: I will advise Mr. McGollum that that is the wish of some of the members of the committee to have a further meeting before a final report is submitted to the Council.

Gentlemen, the next report is that of the Committee on Liquefied Petroleum Gas and in the absence of Mr. Warren, the chairman, the report will be read by Mr. Allan James.

Mr. James: The Committee on Liquefied Petroleum Gas, appointed by the National Petroleum Council "to study the liquefied petroleum gas situation, including a study of production and transportation facilities, herewith submits to the Council its report and recommendations.

The scope of the assignment was so broad, and in some respects would require such a large amount of original research because of scarcity of dependable data, that it was deemed advisable to divide the Committee membership into three subcommittees, each to handle a specific assignment.

One subcommittee was named to study "Production," another "Demand" and the third "Transportation."

This Committee report accordingly not only embodies the three subcommittee reports but also a correlation of their data.

The fact became very apparent as the Committee proceeded

with its work that conditions within and affecting the liquefied petroleum gas industry have been and are continuing to change with such rapidity that any conclusions reached and recommendations made would have to be subject to numerous qualifications.

For example, the "Production" subcommittee could determine with reasonable accuracy the total capacity of new and expanded facilities underway or planned by the natural gasoline and cycling plant operators, but it could not, because of the steel and labor situations and other factors, predict with any degree of accuracy just when or in what order those facilities would begin manufacturing liquefied petroleum gases.

This subcommittee could not, therefore, estimate production for 1948 or 1949 on either a daily average or a total-for-the-year basis. It had to confine its estimates to the volumes the new and expanded facilities are expected to be producing at an annual rate by the end of each of the years 1948 and 1949.

This subcommittee also had to give serious consideration to the potential increase in liquefied refinery gases as a result of the current refinery improvement and expansion program.

While the Committee obtained estimates of increased production from refineries representing 63.3 per cent of the cracking capacity and 54.3 per cent of the crude capacity of

the United States, it was unable to obtain estimates from a few large refineries known to be making and selling large quantities of liquefied refinery gases. Neither was the Committee able to obtain estimates of increased production from many small refineries which may either increase production or in which additional equipment for the production of liquefied refinery gases may be installed in the near future. This unreported potential production, therefore, becomes an unknown factor in the determination of total production.

The Committee feels, therefore, that it can go no further than to state that, on the basis of the information at hand, the minimum estimated total production at the end of 1948 and at the end of 1949 will be at a rate which will amount to an annual production total as reported by the subcommittee.

In other words, the total production figures must not be construed as being the Committee's estimate of total production that actually will be realized in each of the two years under consideration.

The "Demand" subcommittee was faced with much the same problems, and it will be noted that its report contains numerous qualifications.

This subcommittee also realized that, due to the uncertainty with reference to motor fuel demand and production; the effect of enlarged and new refining facilities on the

requirements of liquefied petroleum gas; the enlargement of existing facilities or the installation of new facilities which would make some refineries more self-sufficient with respect to requirements of these light hydrocarbons, and many other unpredictable factors, it would be almost impossible to determine or estimate with any reasonable degree of accuracy the volume of liquefied petroleum gas that would be required by refineries in the United States during 1948 and 1949. The subcommittee accordingly excluded refinery requirements from its estimates of demand.

This Committee accordingly approached that problem by comparing shipments to refineries for 1946 and 1947, as reported by the Bureau of Mines. This report indicated that shipments in the latter year were 7 per cent higher than in the previous year. By using 7 per cent as an arbitrary annual increase factor for 1948 and 1949, the Committee arrived at what it believes is a conservative estimate of liquefied petroleum gas requirements by refineries for those two years, namely, 436,002,000 gallons in 1948 and 466,720,000 gallons in 1949. The Committee has added these totals to the "Demand" subcommittee's estimated totals.

Tying the reports of the Production and Demand subcommittees together -- keeping in mind the qualifications already stated -- produces the following table:



	1948	1949
Production (annual rate at end of Year)	(Gallons) 3,263,881,000	3,771,886,600
Demand	<u>3,194,102,000</u>	<u>3,755,220,000</u>
Surplus on Annual Basis	69,780,000	16,667,000
Indicated Daily Average surplus at end of year	193,800	46,000

On their face, these figures indicate there is going to be sufficient liquefied petroleum gas produced in 1948 and 1949 to take care of demand.

For this reason the Committee re-emphasizes the qualifications previously made with reference to the production and demand figures, and, keeping those qualifications definitely in mind, has concluded that:

1. Production of liquefied petroleum gas by the end of both 1948 and 1949, will be at a rate which, on an annual basis, is likely to be ahead of annual demand but which, in seasonal periods of peak consumption in each of those two years, may not be at a current rate sufficient to meet the total current demand.

2. Tank car production for 1948 and 1949 should result in an adequate number of cars to meet requirements.

Production of liquefied petroleum gas at manufacturing points is a continuous and fairly constant volume operation. It cannot be increased or decreased to coincide with current demand.

Excess production in period of light demand, therefore, must be irrecoverably lost, or stored for future use.

In years past when current production was sufficient to supply the current demand, even in periods of peak consumption, expensive and large scale pressure storage was not considered an economic necessity.

Now that annual demand is creeping so close to annual production, the Committee is strongly of the opinion that only by saving excess production in periods of light demand can the industry cushion itself against those seasonal periods when demand on a current basis far outstrips current production.

The Committee accordingly recommends to the industry -- both manufacturers and distributors -- that it proceed with a storage program designed to save for ultimate utilization the maximum volume of liquefied petroleum gas produced annually. This Committee believes storage capacity not only should be increased at manufacturing plants and bulk plants of distributors, but also should be established at strategic points for short-haul distribution in order to obtain the maximum utilization of transportation equipment throughout the year. Particularly should distributors and consumers whose distribution or use is of a highly seasonal nature install ample storage to provide for their excess requirements during peak demand periods.

The Committee also recommends that distributors and

consumers whose distribution or use is of a highly seasonal nature install ample storage to provide for their excess requirements during peak demand periods.

The Committee also recommends that distributors and equipment suppliers minimize the sale of tanks to consumers of a size which is insufficient to handle a peak load without refilling for at least 90 days; also to make every effort to convince consumers having insufficient storage capacity either to install larger or additional tanks.

The Committee strongly recommends to potential consumers that they do not purchase and have installed any new equipment for utilization of liquefied petroleum gas unless they first can make a firm contract with some reputable distributor for their entire fuel requirements.

#### REPORT OF "PRODUCTION" SUB-COMMITTEE

From the U.S. Bureau of Mines Report MGR-156, the Liquefied Petroleum Gas production of 1946 as compared with 1947 is shown in the following tabulation:

Liquefied Petroleum Gases	GALLONS	
	1947	1946
Commercial propane-butane mixture	477,711,000	420,521,000
Normal Butane	442,533,000	339,532,000
Propane	556,803,000	327,163,000
Other L.P.G. Mixture	166,025,000	121,879,000
Iso-Butane	206,184,000	164,015,000
Iso-Pentane	<u>40,268,000</u>	<u>36,235,000</u>
Total	1,889,524,000	1,409,345,000

Liquefied Refinery Gases produced  
for fuel and chemical  
purposes

	<u>784,140,000</u>	<u>705,642,000</u>
Total	2,673,644,000	2,114,987,000
Increase	558,677,000 =	26.4%

It will be noted that in 1947, LPG production increased 26.4% with a total production of approximately 2,673,664,000 gallons, as compared with 2,114,987,000 gallons in 1946, or an increase of 558,677,000 gallons.

In order to estimate the quantity of production to be expected in 1948 and 1949, this sub-committee worked with the Production Sub-Committee of the National Petroleum Council's Steel Requirements Committee, and questionnaires were circulated to determine the number and size of Natural Gasoline and Cycling plants that are either now under construction or authorized and planned through September 31, 1949. A summary of the data obtained from these questionnaires is tabulated in Table No. 2, indicating that 57 new projects are under consideration in 10 states. The two plants under construction in Pennsylvania and California did not report the volume of production, but for those reported it is shown that annual capacity for LPG is being installed as follows:

Butane	353,800,000 gallons per year
Propane	333,547,000
LPG	<u>425,492,000</u>
	1,112,847,000 gallons per year

These figures indicate that by the end of 1948, production of Liquefied Petroleum Gases from natural gasoline and cycling plants is likely to be at the rate of 2,423,690,000 gallons on an annual basis, while production on the same basis is likely to be in the order of 2,868,823,000 gallons by the end of 1949. These 1948 and 1949 figures represent increases over 1947 production of 28 per cent and 51 per cent respectively, with the increase in 1949 over 1948 amounting to 18 per cent.

The Bureau of Mines report indicated Liquefied Refinery Gases produced for fuel and chemical purposes, i.e., production available for use outside the plants, amounted to 784,140,000 gallons in 1947, or approximately 29 per cent of total production.

Telegraphic questionnaires accordingly were sent to refiners representing 79 per cent of the cracking capacity and 70 per cent of the crude capacity of the United States, requesting them to estimate the volume of new production of propane and butane which would be available from refinery sources for sale for fuel and chemical purposes during each of the years 1948 and 1949 over and above 1947.

Four companies known to be distributing sizeable quantities of Liquefied Refinery Gases in the domestic market failed to reply. Answers were received, however, from refineries representing 63.3 per cent of the cracking capacity

and 54.3 per cent of the crude capacity of United States refineries as reported by the Oil and Gas Journal, issue of April 1, 1948. The Committee estimates, however, that these replies cover 80 to 90 per cent of the potential production of Liquefied Refinery Gases available for fuel and chemical purposes.

Totals obtained from these questionnaires are as follows:

Estimated Increase in Production

Propane		Butane	
1948 Over 1947	1949 Over 1948	1948 Over 1947	1949 Over 1948
Total Gals. 25,896,600	44,130,000	3,974,000	16,172,000
Total*			
		1948 Over 1947	1949 Over 1948
		55,058,600	63,872,000
Daily Average Production (gallons)		153,200	177,400

\*(These totals are higher than the sum of the propane and butane totals due to the fact that some refiners reported total new production without segregating it.)

On the basis of these replies we can assume that the sum of the totals above plus the 1947 production reported by the Bureau of Mines represents the minimum volume of LPG from refinery sources as shown in the following table:

1948	1949
1947 Production 784,140,000 Gal.	1947 Production 784,140,000 Gal.
Total Increase 1948	Total Increase 1948
<u>55,058,600</u>	55,058,600
Est. total lique- fied refinery gas for fuel & chemical purposes	Total Increase 1949
839,198,600 Gal.	<u>63,872,000</u>
	903,070,600 Gal.

From these data, it is indicated that, on an annual basis, the minimum total production of liquefied petroleum gas by the end of the years 1948 and 1949 will be at the following rate:

	1948	1949
Production Sources		
1947 Production (other than refineries)	1,889,524,000	1,889,524,000
New Production (other than refineries)	534,159,000	979,292,000
Refineries	<u>839,198,600</u>	<u>903,070,600</u>
	3,263,881,600	3,771,886,600
% Change over 1947	22%	41%
% Change over 1948		15%

I believe that covers the high points of the report.  
If there are any questions, we will attempt to answer them.

The Chairman: Is there any question in connection with this report?

I want to say that this committee has conducted a very exhaustive study of this subject and this report is one that I think will give the Council the very fine reference that we can submit to the Oil and Gas Division in connection with this important subject LPG and I want to congratulate the committee for the thorough job they have done. It is an excellent report. It is quite voluminous and I know that we have a busy schedule ahead of us, but this report can be passed along for your study.

In the meantime, what is your pleasure?

Mr. Wescoat: I move its adoption.

The Chairman: All those in favor please indicate by saying Aye.

The report is adopted.

Gentlemen, the next report will come from the Committee on Petroleum Tanker Transportation. Mr. James P. Patterson is the chairman.

Mr. Patterson has rendered invaluable service to the Council in the studies he has made as chairman of this committee on Tanker Transportation and I want to take this occasion to express our gratitude to Mr. Patterson on his very fine and cooperative effort.

Mr. Patterson: With the committee's indulgence, I will read the report. It is a short one.

The committee's report of November 20, 1947 showed a



total worldwide availability of 1271 tankers equivalent in size, speed, and general efficiency to the T-2 type vessel, and a net availability for commercial use of 1005. Table I attached shows a world tankship fleet of 1264 T-2 equivalents as of April 1, 1948, or a reduction of seven, and deductions for other than commercial use should be made from this figure as outlined below.

Gross Available		1264
Other Than Petroleum Trade	28	
Inoperative	39	
Government Service(all countries)	<u>185</u>	<u>252</u>
Net Available		1012

Aside from the fact that the foregoing shows a net available larger by 7 T-2's, or practically the same as previously, a most significant fact, as shown in Table III, is the change of ownership, particularly from U.S. Government to private interests. U.S. Maritime Commission ownership of tankers declined by approximately 260 T-2's of which 45 were transferred to U.S. military, and of the remaining 215, 110 to U.S. private ownership and the balance to private fleets under British, Panamanian, Norwegian, Italian, and French flag.

Our previous report stated that there were approximately 100 T-2 tankers in lay-up together with 37 of the Liberty type and that the transportation shortage prevailing during the last peak demand winter months would not have occurred had

these vessels been operating. In addition to the ships actually tied up there was a further indeterminate yet considerable wastage of tonnage due to the unavoidable loss in efficiency of Government operation as compared with private. This statement should not be considered as a criticism of the Maritime Commission and the term "unavoidable" is used with sincerity, but it is a known fact that private owners have a continuity of business combined with forward planning which enables them to avoid cross-hauls, loading and discharging delays, and other factors which detract from the effective use of tonnage.

Attention should also be called to Table VII which shows there are approximately 280 tankers equated to T-2 equivalents under construction or on order as of April 1, 1948. Recent additions of U.S. orders bring this number to 299, and the committee considers a conservative rate of delivery to be as follows:

1948	22
1949	68
1950	68
1951	75
1952	55
1953	<u>11</u>
Total	299

With the foregoing in mind it now appears that a total

of 171 additional T-2 equivalent tankers will be available for use by the latter part of this year as compared with the peak winter period 1947/1948. For ready reference this total is arrived at as follows:

100 T-2's from laid-up status

19 equivalent T-2's from laid-up status (= 37 Liberties)

30 due to increased efficiency under private ownership  
(estimated)

22 from new construction

Total 171

After full deliberation of the facts already presented in this report and in the attached tables, the committee is of the considered opinion that world availability of tanker tonnage should balance demand for at least the coming 12-month period as seen from present-day conditions. For this reason we are of the firm conviction that there is no need for continuing or re-instituting the emergency governmental measures which were placed in effect during the past winter. In this latter connection we feel it pertinent to stress the very high percentage of tonnage under U.S. private ownership as well as that controlled by ECA countries. Table I shows a total of 34.9% of U.S. owned (28.5% American flag and 6.4% Panamanian) and 42.7% owned by ECA countries, thereby accounting for 77.6% of the world fleet.

As far as saying there will be a shortage or surplus the committee has gone on record that in their opinion for

at least a 12-month period there will be sufficient tankers. It may be possible that we will go beyond that and say there will be sufficient tankers, but it is impossible for a Tanker Committee to determine that as the movement of petroleum is one that calls for expert study by economists and not by tanker managers.

Therefore, if there was any decided swing in the movement of petroleum, a greater amount for the Persian Gulf by tanker, or a change in the movement which would make it a decided change in the mileage covered by a barrel of oil, there would be, of course, of necessity a possible shortage. That, of course, is a matter for some other committee than the Tanker Committee to decide. But if a study were made of the economic conditions facing the industry in the next year or two years or three years, it would be relatively easy to take the barrel ton mile basis of these tankers and work out an equation as to the needs or necessity of tankers in the future.

Mr. Blaustein: Does it appear to you that there may be a surplus of tankers during the next 12 months?

Mr. Patterson: I question that. Of course, we are all with a temporary surplus right now. Tankers are being tied up. I believe that a good part of that comes from the question of ECA or ERP planning not being in effect in the petroleum end of it.

I believe it also comes from a question of storage. I mean that our storage facilities are getting rapidly filled in the Atlantic Coast and on the latest figures I have seen they show a decrease in the products in the Gulf as compared to the Atlantic Coast over last year. Consequently, all those factors enter into the situation.

I seriously doubt whether there will be a surplus, but I certainly look for no shortage even though it may be a very severe winter.

The Chairman: Are there any questions in connection with the report which Mr. Patterson has submitted?

Mr. Swanson: This sentence on the bottom of page 2: "For this reason we are of the firm conviction that there is no need for continuing or re-instituting the emergency governmental measures which were placed in effect during the past winter."

The question I have, Mr. Patterson, is that there you refer to emergency governmental measures with respect to tankers and you do not have in mind the establishment or appointment of a fuel coordinator and things which have to do with that.

Mr. Patterson: That is correct. This applies only to tankers.

Mr. Swanson: I have seen that one sentence interpreted in newspapers so I was wondering whether it

would be better to limit that in the report with respect to tankers.

The Chairman: The report has already been given; that interpretation was not placed on it, Mr. Swanson.

Mr. Swanson: I have seen it in the newspapers.

Mr. Patterson: Unfortunately, the press has a habit of misinterpreting things.

The Chairman: Thank you, Mr. Patterson. You have heard the report; what is your pleasure?

Mr. Wilson: I move it, Mr. Chairman.

The Chairman: Doctor Wilson moves adoption of the report. Is there a second?

(The report was seconded.)

The Chairman: All those in favor please indicate by saying Aye. The report is adopted.

The next order of business is the report of the Committee on Petroleum Refining Capacity to be presented by Dr. Robert Wilson, Chairman.

Mr. Wilson: As it will appear from the report, this should not be a report of the committee because the committee has not met for reasons indicated. I will bring out another status of this report which was more or less in response to a last minute request.

On April 22, 1948, Mr. Walter S. Hallanan reactivated the Committee on Petroleum Refining Capacity, which had

previously reported to the Council on July 8, 1947. Mr. Hallanan requested that the committee "ascertain the facts and report to the Council on the status of refinery capacity in the United States."

The previous report of the committee estimated 5,648,100 barrels as the total daily capacity of the industry as of June 30, 1947, and gave figures for anticipated additions to that capacity by quarters through June 30, 1948. On the basis of these figures (and after deducting the capacity which was to be shut down as it was replaced by new capacity) the capacity as of June 30, 1948, was estimated to be 5,820,900 barrels per day.

Since this estimate extended nearly three months beyond the date of reappointment of the committee and since both the API and the Bureau of Mines had been doing their best to keep up to date with changes in refinery capacity and construction plants, the chairman was inclined to doubt the need for an additional survey last spring and carried on considerable discussion of the matter with Mr. Max Ball and Mr. Fred Van Covern of the API. Mr. Van Covern expressed the opinion that he could supply reasonably accurate figures for refinery capacity throughout the remainder of 1948 without making a new and independent survey. In view of this and the fact that refinery capacity figures are always uncertain since they vary considerably with the type of crude run, the

type of products made, etc., Mr. Ball eventually concurred in the thought that a new survey might well be postponed until this coming fall.

Mr. Ball raised the question, however, as to the desirability of classifying refinery capacity into "economic" and "uneconomic" capacity. Your chairman is of the opinion that such a classification could not be accurate and would not serve any particularly useful purpose. The increase in the demand for, and the price of, heating oils has made the operation of even small skimming plants profitable if they are reasonably well located relative to crude supplies and has brought into operation practically all operable capacity including some which had been shut down for several years. Hence such capacity would have to be considered "economic" under present conditions. However, the borderline between economic and uneconomic would switch rapidly with changing conditions, and if such a classification could be made accurately at a given time, it would be inaccurate as soon as there was a change in conditions.

The committee was advised by letter of the principal points raised in the correspondence with Messrs. Ball and Van Goven and concurred with the chairman's view that it was not worth while to try to distinguish between economic and uneconomic capacity or to make a new survey at that time but agreed that it would be desirable to bring these figures up to date by making a survey starting in September



which would cover anticipated expansion throughout the year 1949.

However, in order to give the Council the benefit of the latest information available to the API, the chairman asked Mr. Van Covern to estimate refinery capacity by districts for December 31, 1947, June 30, 1948, and December 31, 1948, based on the best information available to him. The figures he submitted are as follows:

# ESTIMATED DAILY REFINERY CAPACITY - U.S.

(Barrels)

	Dec. 31, 1947	June 30, 1948	Dec. 31, 1948
District I	953,000	953,000	960,000
District II	1,521,000	1,522,000	1,576,000
District III	2,125,000	2,154,000	2,164,000
District IV	175,000	175,000	178,000
District V	<u>1,041,000</u>	<u>1,041,000</u>	<u>1,041,000</u>
	5,815,000	5,845,000	5,919,000

It will be noted that the capacity figure for June 30, 1948 is less than half of one per cent higher than that estimated for that date in the previous report of the committee.

To avoid a misunderstanding I suggest you insert in pencil the following: "or  $3\frac{1}{2}$  per cent above the capacity a year ago." In other words, the increase in refinery capacity as against a year ago is  $3\frac{1}{2}$  per cent as against the 3 per cent increase which we postulated. The projected

increase for the second half of this year is slightly under  $1\frac{1}{2}$  per cent but is, of course, not based on a complete survey. Mr. Van Covern expressed the opinion that all these over-all capacity figures may well be about one per cent on the low side because of various expedients which companies find it possible to adopt under conditions when maximum throughput is sought more or less regardless of cost.

Recent API weekly reports show refinery runs averaging between 98 and 99 per cent of estimated capacity as compared with about 92 per cent a year ago. It must be recalled that refinery capacity figures represent estimated average calendar day capacity for estimated average yields of products, and it is quite possible that over a period of a few weeks total crude runs may exceed estimated capacity, especially if shutdowns are less than average.

Do not think the figures are wrong. They will be down to 98 per cent when the shutdown comes along.

Regardless of this, it is quite apparent that the expansion of refinery throughput which has recently set new high records almost every month must flatten off from now on. The industry is today operating even its relatively inefficient refining units substantially at capacity for the first time since World War I. In spite of almost superhuman efforts to expand refinery capacity, in the face of high construction costs and steel shortages, it appears that refinery capacity

capacity is likely to be a serious bottle-neck during the next 12 months if the increase in demand continues.

It must be emphasized that this does not represent a report of the committee except to the extent that their views are specifically referred to herein. If the Council so desires, the committee will undertake a new survey beginning in September to cover projected expansion by quarters through the year 1949.

The Chairman: Is there any further comment?

Mr. Wilson: I think if the report is adopted, it will include a request to us to go ahead in September with the survey. In view of the fact that other members of the committee have not had a chance to see this I would be glad to have remarks in regard to it.

The Chairman: Do any members of the committee desire to comment on Dr. Wilson's report?

Mr. Wilson: Mr. Blazer said he did. He said he concurs.

The Chairman: What is your pleasure, gentlemen?

Mr. Blazer: I move its adoption.

The Chairman: Mr. Blazer moves its adoption with authority for the committee to continue.

Mr. Ball: I would just like to say in this connection how far we in EGD here appreciate, and I am sure that the Council as a whole appreciates, the cooperation of the API

in a job of this sort. This is a case where Fred Van Goven did a lot of work and I just want to say a word of appreciation for that.

The Chairman: You have heard the motion that the report be adopted. All those in favor indicate by saying Aye. Contrary, No.

It is so ordered.

Before moving to the next order of business which deals with the matter of the requirements of the armed services, I want to take this opportunity to call attention to the fact that one who has been very close to us in connection with this essential Government problem is about to retire from his duties. We have had an intimate and close relationship since the creation of this Council with Col. Vogel who has been the executive officer of the Petroleum Army Board.

Col. Vogel is about to retire from the service. We shall miss him very greatly. I want to take this opportunity to express our gratitude, Colonel, for your very fine cooperation with this Council and your understanding of both sides of the problems that we have encountered. We will be very glad at this time as a valedictory from you to have a very long speech from you about what you see in the future as far as the cooperative effort of this Council with your part of the Government service is concerned.

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Colonel Vogel: I merely want to accentuate the fact of the National Petroleum Council, and the work of the Petroleum Advisory Committee, and the valuable assets.

It is with great regret that I sever connections here with governmental oil, but certainly I will be seeing most of you from some other capacity.

*Stark*  
The Chairman: Gentlemen, at this time I desire to present to the Council, Admiral E. D. Foster, Chief of the Bureau of Supplies and Accounts, and Directorate of the Armed Services Purchasing Agency.

This agency is charged with the purchasing and distribution of petroleum products for all three of the armed services.

He is here to talk with us about the problems of petroleum supply about which we have heard considerable.

I know that it will be a very fine opportunity for us to get acquainted with you, Admiral.

I now introduce to you members of the National Petroleum Council, Admiral Foster.

Admiral Foster: Thank you very much for that flattering introduction.

Gentlemen, it is indeed a pleasure for me to have the opportunity to address this distinguished Council. I have had the pleasure of knowing a number of you, and it is always a pleasure to be with you.

My message this morning is a little bit grim, but I still

welcome the opportunity to present to you the facts as we see them, and to give you a challenge which I am sure you will accept and which I am sure you will meet.

Our cooperative experience, for a long while, has produced a very excellent result. You have been called upon to meet emergencies, and you have met these emergencies. We, in turn, have endeavored to be cooperative, have endeavored to lift the burden off you, and we have endeavored to take up slack by cushion, by using our inventories at times when you were confronted with other peak demands.

I shall now follow closely, Mr. Chairman, my notes, because I have a precise message to bring, and I wish to have it precise.

The risks to our national security which are now presented by the Berlin situation and by the situation in the Middle East, forces us to take another look at this very important matter of providing fuel for the armed services, and in a more realistic manner than we ever have before. The seriousness of the situation demands that such realism be followed.

Because of the position in industry which you men present here today occupy, I feel that it is indeed appropriate that we indulge in some detail with the interrelationship which does and should exist between us.

Our immediate problem is the purchase of gasoline for the current six-months period. Back of that problem lies the

question of which company or companies will come forward with the quantities needed.

We all recognize that dislocations in production schedules and marketing programs will likely be necessary, but the heart of the problem is revealed by the stark necessity of making such decisions.

The time for making those decisions is now. It is a problem, yes; it is even, I believe you will all agree with me, a problem of leadership in carrying out the responsibility which you and I share together. It is important in the operation of the forces; and in turn it is important to those who make and carry out and administer such policies.

It must be clear to you that if you fail to carry out your share, the whole job must go by default to the government. So, I urge you to be tough-minded about this situation, and not to wall yourselves in with comfortable illusions that the other fellow ought to take care of it, to do the job.

During the past six months, the Armed Services have attempted to establish minimum stock levels for petroleum products, and to bring our inventories up to these realistic levels. So far we have had very limited success. The dislocations created by the Berlin airlift, a local emergency, have convinced us that we must not accept as adequate anything less than the minimum stock levels set by those responsible for our national security.

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I have three charts here to show the results of what I frankly term "wishful thinking". The green lines chart our hopes that something would turn up by the time requirements were actually needed. In the case of diesel fuel, the required level did turn up, but that hasn't helped fly airplanes one bit.

The first chart is for Aviation Gasoline. As you see, the chart shows that our aviation gasoline has at no time risen to a figure better than two-thirds of the requirements. This fact explains to some degree our necessity for additional immediate purchases to cover increased operations. In short, gentlemen, the cushion was quite insufficient.

The second chart is for Navy Special Fuel. This chart rather faithfully records the reason for weekly explanations of how it wasn't satisfactory; but how we hoped by next month, and next month by the following month, that we hoped to obtain sufficient fuel.

Now, the third chart is for diesel. It does indicate that an adequate level has now been reached; but, you will notice, that we were for an extended period obtaining the requisite amount.

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I show you these charts as evidence first of our need to prepare our cushion for emergency; and, secondly, as evidence of the time it takes our present cooperative machinery to give results.



Last March, preliminary estimates of military petroleum requirements were made available to industry. In April, invitations to bid were sent to the suppliers. The response at the end of June was strictly in line with the old way of doing business. We hoped that with a little more pressure, something would turn up; but, unfortunately, the pressure came from another quarter, something did turn up -- an additional requirement for 1,400,000 barrels of aviation gasoline.

There is a strong possibility that there will be an additional requirement stemming from the same source; perhaps somewhere up to the neighborhood of 500,000 barrels.

Now, the charts which I shall now show you will report the situation as it stands today. These charts, gentlemen, set forth only the bulk requirements, and the coverage obtained to meet these requirements.

I should like to emphasize the fact that many companies that are not shown on the charts have made significant contributions into this program. I wish to emphasize this point in order that credit may not be detracted from those companies whose support is not reported here in detail.

Now, the first chart, relating to Navy Special, you will see that the coverage is complete. The companies supplying Navy Special are relatively few in number. In the area, recently, one company supplied all of the supply.

Now, next, the Diesel chart. It is very favorable, but it can't be considered fully satisfactory. What I would like

to emphasize is the fact that these are minimum requirements. It isn't enough to "almost" meet minimum requirements; that particular block should be entirely read.

Now, the next chart, Motor Gasoline. This, gentlemen, is a very bad showing. If what I understand is true, that the present inventory position in industry is 15 million barrels better than it was at about this time last year, this particular chart reflects an even sadder situation. I don't believe that you would want to accept such a situation.

Now, for the 115-145 octane gas. This, again, is not a bad picture; pretty good. Again, I call your attention to the fact that it is not enough unless we meet these minimum requirements -- they should be well over such requirements.

Now, finally, the 100-130 octane gasoline. The increased activity of the Air Force, and the possibility of further extended operations, full coverage is the only tenable position. Industry must gear itself to meet any demand for this product that the Armed Forces may request. There may be no advance notice of still additional requirements. I can only suggest that the daily headlines serve an effective barometer to record potentialities.

Now, many of you know the product which can be offered at the high of the posted prices. I should like to make our attitude clear in this regard. We are buying for the public. It is not our intention to permit the Government to bear the

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burden of spot prices; nor should the Government be a party in forcing the general levels of prices upward during a tight supply situation.

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If it is necessary for our suppliers to procure a part of their total stocks at premium prices, it is our opinion that such additions should be spread fairly throughout the whole sales or absorbed as an expense of doing business.

Now, the charts I have shown you in this particular, the one for motor gasoline, points specifically to shortcomings in our relationship.

I omitted to tell you when discussing the 115-145 octane gasoline, that the charts themselves reflected the condition two days ago at the time the chart was prepared, and the remarks, therefore, are applicable. I do desire to tell you, however, that with some pressure -- like yesterday -- we did get full coverage for the 115-145 octane gasoline; but the remarks that I made are just as applicable, I assure you, because of the fact that we are certain that we are going to get within the next few days additional requirements up to 3,500,000 barrels.

Failure to bring the inventories to proper levels, assures us that the impact of later contingencies will be insurmountable.

I think it is perfectly obvious to each one of you how serious it would be to our national policy if we failed to

provide the fuel required for the current Berlin situation.

This won't happen, at least in the immediate future, but we were perilously close to failure to provide that gasoline within the past few days.

With respect to response to the additional requirement of 1,400,000 barrels of grade 100 aviation gas, it has been most encouraging. That was not bad. We are most appreciative for the companies who have responded to this call.

Last week, gentlemen, in our humble opinion, marked the end of wishful thinking. <sup>at</sup> And that time we considered that it is ~~not~~ longer enough to say that industry was supposed to cooperate. We considered it necessary then to prepare the Munitions Board and the National Security Resources Board for a recommendation which we all fervently hope will not be necessary to fulfill.

I cite this change of attitude, not as an indication of any unfriendliness or "get tough" attitude, but as evidence of facing the realities of the problem as they now exist. We can not procrastinate until a position of "too little too late" becomes a reality.

I ask you gentlemen to view this situation with the same seriousness with which I am trying to present it. I am sure that there isn't ~~1~~ one of you that would deny the importance of having adequate petroleum products in the military distribution system to support our national policies.

In the designation of minimum levels, to which I have referred, is the control procedure established by the Joint Chiefs of Staff.

These levels are set as realistically as we know how. They provide insurance for our operating forces, and they provide a cushion for industry in the event of an all-out emergency.

When we have to draw on these stocks for localized difficulties, it is obvious that they must be restored as quickly as possible; so it becomes apparent that the job of saving our voluntary, cooperative machinery is up to you.

It will not be easy, I know, to decide to mark time on a marketing program, or to modify the specifications of the commercial product. These decisions will take a high order of leadership. Leadership is fully aware of the responsibilities of the business man toward his nation, his community, and to his customers.

Now, what do we want specifically? I would like to say, first, that no one should be satisfied merely to offer the quantities that he gave us before. Such quantities are not the proper measures for today's stark necessity. Rather, I ask that each company decide clearly for itself additional quantities which you feel you should offer in all fairness to the Government.

If there be a problem, if that problem can be precisely

corralled, reasonable men gathering together around the conference table, you should have no difficulty in agreeing upon a proper solution.

There is no doubt, gentlemen, that here we have a problem. There is no doubt of the seriousness of the problem, the seriousness of national importance. There is no doubt in my mind that the cooperation of you gentlemen in the petroleum industry.

I only hope that I have succeeded in defining the problem with precision. The total quantities required must be forthcoming, and must be forthcoming now. Prices granted must be in keeping with the enlightened business policy of treating the Government squarely.

I have every confidence that you will meet with flying colors the very realistic challenge that I have endeavored to give you.

(Applause.)

The Chairman: Admiral Foster, I am certain that I express the unanimous sentiment of this Council when I say to you that we are glad that you have come to us with this very frank, forthright, understandable statement of the situation.

We want to know what we are expected to do. In knowing that, I have every confidence that the petroleum industry will continue its record of never failing to meet its full

responsibility to its Government.

Supplementing what Admiral Foster has said, I think we should now hear from Major General Larkin, who is the representative of the Army <sup>on</sup> and the Armed Services Petroleum Agency.

Major General Larkin.

6      Major General Larkin:      Gentlemen, I feel that Admiral Foster has covered the Armed Services situation as regards petroleum products very completely and thoroughly, and I trust that you gentlemen of the industry will be able to solve that problem.

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I wish to emphasize one point that he touched on. As I recall, [last year when the Armed Services were having considerable trouble in getting petroleum products, industry stated that the problem was difficult because the Armed Services did not carry a program well in advance; that we are working from hand to mouth, and if we could present such a program in advance, our needs could be taken care of.

Well, I feel that industry was well justified in its criticism; however, that was remedied.

But the petroleum products have not been forthcoming to the extent desired. I feel that the burden should not be carried by a few companies. I think industry as a whole has to solve that, and certainly a few companies can not carry the load. I think you gentlemen appreciate that the needs for national defense are paramount; and, frankly, I feel also that

if the situation can not be solved by industry, it will be taken in hand by Congress; and if so, I do not believe that Congress will stop merely at allocations.

I think the question of price control will also be involved.

Personally, I hope that industry will be able to solve this problem.

Thank you.

(Applause.)

The Chairman: The report of the Committee on Military and Government Petroleum Requirements, Mr. Drake, Chairman.

Mr. Drake: Mr. Chairman, Admiral Foster, General Larkin, and Council: The remarks I am about to make sum up the views of not only myself, but Mr. Page, Acting Chairman; and of the committee. They are not the result of only my thinking, but the result of the contacts which we have had of with the Armed Services Petroleum Purchasing Agency, which Admiral Foster and General Larkin are members.

Earlier this morning I learned that the Air Force has issued instructions to curtail operations in the United States because of the necessity of bringing working inventory levels of aviation gasoline to a safe minimum. It is not a good commentary for the petroleum industry that this kind of a restriction has to be imposed upon the training of our armed forces when at the same time our industry assures every motorist of a tankful of his favorite gasoline any time at the corner



filling station.

The industry as a whole has responded favorably to military requirements, but, I must add, only after the application of all the informal pressure that both the military and our committee were able to bring to bear.

While I do not wish to detract any credit from those companies who have come forward with substantial offers during the past ten days, you must recognize that the major credit belongs to the companies who responded spontaneously to the invitations to bid in April and May.

In canvassing the industry this past month, one specific attitude occurred repeatedly. Company after company felt that it had offered a fair share of the requirements, based upon its ratio of crude throughput, refinery output, or sales, to comparable figures for the whole industry. I can understand and appreciate the use of such rule of thumb figures to support the reasonableness of offers to the military. We are all anxious to maintain and expand our post war markets, and it takes product to do it. Such a system of self-computed allocation tends naturally to delay completion of the military program while each company waits to see if some one else will come forward with enough. As Admiral Foster has shown you, the experience to date has been exactly that.

Now, when time is of such importance, this system of reaching full coverage only after a number of rounds is at its

worst. Industry's first duty is to insure that the military requirements are 100 per cent covered within a short time after formal invitation to bid. The performance so far has not been satisfactory by that criterion. The only solution for our voluntary system is for a more active leadership to be displayed within industry. Regardless of what pattern or formula is followed, it is necessary that offers to support military programs come in promptly. Military operations and training in support of our national policies must not be jeopardized in this world critical period.

"Admiral Foster passed briefly over the cooperation extended to industry by the Armed Forces. There are few in industry who know, because it has not been widely circulated or exploited, that the persons charged with the military petroleum program have been appreciative and considerate of the problems before industry. Lifting schedules have been modified and retarded during the peak consumption of various products. The Navy loaned a part of its inventories last winter to the States - and even yet has not wholly restored its January position. Had the military insisted on maintaining its program, or had the Navy insisted upon immediate restoration of its levels, industry would have faced production and marketing dislocations which it could ill afford. Therefore, in all fairness, it is industry's job to meet the pressure now on the military side. That industry has risen to the occasion is not remarkable. It is its job to do just that, and

I am sure it will continue so to do.

" As the world situation exists today, there is no middle ground between an effective voluntary program and a mandatory order basis. The military is not desirous of establishing any form of control over the petroleum industry. They believe, as we do, that proper leadership, under a free system, can give our nation the most efficient utilization of petroleum resources and facilities. They sincerely hope that it will not be necessary for the Government to take further steps to assure necessary supplies.

" Failing the attainment of meeting all requirements this week, industry may expect the recommendation on the part of the Armed Services that mandatory order authority be placed in effect so that there may be no risk to national security or national policies through failure of fuel supply.

" And, gentlemen, let me remind you that existing legislation empowers the Government not only to obtain the products it needs, but also, this legislation permits the Government to obtain its requirements subject to later negotiation for price.

" As I indicated a moment ago, I don't feel that product supplied to the military comes after that earmarked for commercial marketing programs. This has a bearing on pricing in this way. If a company purchases product at a premium price in order to meet both military and civilian objectives,

there is no justification for asking the Government to bear this entire added cost. This cost is an expense of doing business and should be spread evenly over the cost of all that product.

"Consequently, I endorse Admiral Foster's position with respect to the desirability of holding the line for the law of posted prices wherever possible, although it is justly recognized by the Armed Services Petroleum Purchasing Agency that, in the case of special military products, where costs of conversion from normal civilian products vary considerably, it is reasonable to reflect such extra costs in prices quoted the Armed Services.

"I urge the chief executives of the various companies here present to carry this message back to their respective marketing organizations, and urge upon them the necessity of immediate action to the end that the military requirements of our Government may be promptly met.

I am just wondering, Mr. Page, if there is not some things which you might have with regard to this matter; more particularly with regard to the supply situation. I think it would be very helpful.

The Chairman: Mr. Page.

Mr. Page: Mr. Chairman, I would like to say along the lines of General Larkin that last year in August we had some difficulties, we had some criticisms and suggestions, of the

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way the Armed Services were handling this matter. Those suggestions were taken. I think that they have corrected everything that we thought was necessary at that time.

In other words, I think that they have very definitely done their share of the job. They have given us in advance, and well in advance, the figures as to what their requirements would be.

Actually, the changes in those have been minor. In spite of the changes, we all know about present conditions, so I think the industry has been advised well in advance at this time as to the amounts that are necessary.

If all the companies have put those requirements in their base load, I don't think we will have any trouble such as we have had in the last month or two.

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At the end of June, from about two months after the requirements had been issued to the industry, there wasn't a single offer of motor gasoline from the Gulf East Coast area for July listing, and that would, certainly, I should say, try the patience of the Armed Services. They had to get the ships in position, and they had no idea of whether they were going to get the requirements, or where they were going to get the requirements.

As a result, we called up various people in the industry and did cover it, but that is hardly a method of operation that could be considered satisfactory.

So, I feel that we have had two problems ahead. The

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first is to cover the shortages that exist during the six months period and offers, which is about 1,700,000 barrels of gasoline in the Gulf East Coast area.

Mr. Drake: This is motor gas?

Mr. Page: Motor gas.

There will probably be some more aviation requirements and also a small amount of Navy diesel.

*Recently* In addition to that, I would like to suggest that when the procurement agency goes out for the next six months period, from January to June, that all the companies calculate how much they feel their share of the military requirements are and offer that full amount promptly so that the military will see where they stand well in advance of actual quotas. //

I don't think it is reasonable to have the military hold off on a situation as they did at this time, coming up within a week of loading time, and having nothing to offer to load.

So, I would like to suggest that every company take a look at that at this time for their next six months' period, and put that into their program as a base load, and not as the amount they might have left over if they can make no sales elsewhere.

Thank you.

The Chairman: Any questions, gentlemen?

Mr. Brown: I think Colonel Drake's statement was a tremendously effective one. He asked that his thoughts be

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carried back by the executives of the companies represented here; but they are not always as eloquent as Mr. Drake's thoughts, and I would suggest that it would help the whole industry if you would prepare some sort of an extension of his remarks so that the people who are here today would get the fullweight of what has been said.

Admiral Foster: I can not see any reason why officials to whom such presentations have been made should not be furnished with as much as you want them to have.

I don't think we should let out of the inner council, so to speak, information such as that we have just had, to ask for 1,400,000 barrels of 110 octane, and an additional requirement up to 3,500,000 additional barrels; that information certainly shouldn't get out, but I see no reason why it shouldn't be given to responsible people such as those present.

Mr. Wilson: Mr. Chairman?

The Chairman: Dr. Wilson.

Mr. Wilson: I have two or three comments that I would like to make.

First of all, we know that this Berlin operation is a matter of vital prestige to this whole nation, and is being carried on under a great expense.

I can't conceive what the damage would be to prestige if it were that we couldn't even supply a peace time operation like that. It must not happen, and I am very happy to hear

that at this end it has been covered.

Secondly, I believe Colonel Drake and Admiral Foster prefer to combine our commercial needs, or expand our commercial business. I think that too much is indicated there that the companies are out to get new business. Most companies, including my own, are on a basis of not going out and getting new business; but holding down the regular customers.

It is our proposition to the obligation of our regular customers that we are worrying about, and not that of looking for any new business.

I think there was a little implication that goes with "going out and trying to extend our business" more than I believe any one is so doing. It is a difficult thing to deprive your regular customers, hold them down to the extent we have, and offer any more to military than really seems to be your fair share.

In view of that situation, there are two questions that I have.

The first is: the minimum stock levels that you are talking about here, are they for essential peace time operations, primarily, that you are thinking about; or do they include what you might call the "military stockpile" that we have been talking about.

Admiral Foster: I tried to make that clear, sir.

First of all, may I comment on your previous statement.



I am sorry if I inferred that you are trying to develop your commercial business further. I did not mean to make such an inference. I merely meant to indicate, as Colonel Drake seconded, we think that military establishment requirements should come first.

Mr. Drake: That is all I meant by it.

Admiral Foster: Now, secondly, those minimum requirements do represent not only immediate peace time requirements, but as I stated "a cushion for industry" to enable industry to meet the requirements of an all-out emergency, if an emergency should occur.

As a matter of fact, Colonel Vogel, Captain Wilson: is there any objection in telling them exactly what you do represent?

Captain Wilson: None that I see, sir.

Admiral Foster: They represent the requirements of 60 days with the Forces.

Should an emergency overtake us, and we consider that it has, a very modest cushion will be had.

I think there is no building up of stock pile, it is simply to bring them up to the minimum limits.

Mr. Wilson: That is what I mean, it does include enough to bring the stock piles up to that level.

Admiral Foster: To the minimum level.

Mr. Wilson: That might be considered an emergency load

wouldn't have to be met in the following six months, if it hasn't been met in this six months. You can't keep the stock pile up to that level.

Admiral Foster: That portion could not be considered. That is a relatively insignificant part of the program.

Mr. Wilson: There is one more suggestion I would like to make.

If this demand for 100-115 octane aviation gasoline is going to continue to grow as it has in the past year or so, we are rapidly approaching a point where something must be done to expand capacity; and that is going to be very difficult for industry to do in view of the tremendous capital requirements of keeping up with other things, and in view of the uncertainty. It seems to me that we are approaching a place where we need some sort of ability on the part of the Government to aid in financing additional allocations and other units, and needs for emergency transfer of materials.

Frequently your aromatics are in one place and other materials in another place.

It seems to me that if this military believes that the demand is going to continue to grow -- there is a great doubt on the part of industry because of jet fuel -- it is coming to the place where we need some emergency type of operation to aid in the building of those facilities, encourage the building of those facilities.

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Admiral Foster: May I make one further explanatory remark: We have practically no storage for motor gasoline. We depend on ordinary distributive mechanism, shipping mechanism, to take care of our needs for motor gasoline, almost exclusively.

And as for the last point you have just raised, I think it would be appropriate for either Colonel Vogel or Captain Wilson to bring you up to date in that respect.

If either or both of them would comment, I should be very glad.

Colonel Vogel: The point that Dr. Wilson has raised, it has been strongly considered by the Military Advisory Committee in the last few days in reference to the joining up of the present supply plan to the military service, that is necessary to supply an immediate emergency.

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In other words, the planning for the type of organization which would be necessary to institute exactly, and what Dr. Wilson is talking about, is being carried on.

I raised the question with the Committee yesterday, and there were certain implications that came out of such a program, particularly from commercial operations.

Perhaps Mr. Brown and his report on MPAC could offer a few suggestions that we can consider here for that implementation.

The Chairman: Captain Wilson, do you desire to add any

comment?

Captain Wilson: No.

The Chairman: Colonel Drake, you have presented your report, and certainly there is nothing at this time to say for the Committee, so we will accept the report with full authority to steam ahead.

Are there any other remarks on the report?

Mr. Duke: The Council Committee doesn't say anything about Grade 2 requirements.

Do we assume that the Grade 2 requirements are fully met?

Commander Drescher: Last year we converted most of our facilities, the industrial facilities of using that product, to the use of coal for the conservation of liquid fuels, and we have subsequently converted those storages that were previously assigned to Grade 2 in order to allow us to hold on hand sufficient product to meet minimum levels.

Mr. Drake: Do you have a Grade Two problem?

Commander Drescher: We have not at this time any requirements for Grade Two in cargo listings.

Mr. Majewski: It is the announced policy of this Council and its Committee that the military, the Armed Services, and the Government services, will get preferential treatment along with Agriculture.

I think it is very important between both the Military, on petroleum products, that it has Agriculture on the same

basis as the Military, because the Army can't crawl on an empty belly.

We do have to have the same treatment afforded to Agriculture.

Colonel, if you will look at that report of yours and correct the portion that says:

"We are not now giving you preferential treatment,"

I think it ought to be changed that we are. Some of us might be a little dilatory in coming up with the right number, but certainly, our hearts are in the right place.

The Chairman: Any other remarks?

Mr. Blazer: If there is serious difficulty in obtaining 100 octane grade, I think it might be worth looking into the question of the levels of octanes in premium gasolines, and certain areas of the country where almost straight catalytic gasoline is being sold for premium. Now, very often, smaller refineries, particularly inland refineries, are not in the position to supply those grades; but, certainly, those of the larger companies that have what appear to be high octanes to spare, as indicated by the level of octanes -- and in my opinion that level can be justified only on sales basis and not on the basis of the requirements of the 95 per cent of the motorists -- and if some of these octanes were removed and put into the supply for the Armed Services, I believe it would be possible to obtain from many of the smaller and independent refiners,

gallons of gasoline for the major companies who gave up those gallons.

It is true that they might not be as high in octane, but I still think they will be adequate for the use of the public.

10 It might be helpful if somewhere along the line some facilities could be developed along the industry to effect such changes, because I know refiners that would like to make a contribution. They probably remain inland and they don't have the facilities to accomplish it, but working through the major oil companies that have done so much themselves for the campaign, I think that they might contribute more.

The Chairman: Mr. Brown, Bruce Brown, continuing the matter of the military supply situation, will you now present your report to the Committee?

Mr. Brown: Mr. Chairman and members of the Petroleum Council: I would like before we get over to the situation, to give what I feel I can fairly state here about the work of our committee.

You were informed a year ago when we were given a number of questions, which amounted really to asking us to check the conclusions that had been drawn by the Planning Division of the ASFB, of the feasibility of fueling a war. They asked us to predict crude production. For a period of five years, civilian requirement would have to be met on a ration basis, refining capacity, and its adequacy; and measure those items

against the indicated military requirements for petroleum products for a major war.

They have to make such a study each year. It took us a year to complete our study, and yesterday our committee adopted its own data and formally transmitted it to the Armed Services.

Now, we knew when we started out that if the military requirements were realistic, that any such study would reveal a shortage of petroleum even on the most drastic conceivable basis of civilian rationing.

We have been playing with those figures.

Now, at the same time that they asked us those questions, they asked us three more, which, while they weren't so worded, amounted to this: they said, in effect, between the lines: "We know you are going to find this won't balance. There are three avenues of balance that occur to us. If you want our opinion of those, they are: One: How about building alot of synthetic fuel plants? Is that feasible; would that bring us a balance? Two: How about stock piling petroleum before a war; how about having a stock pile? And third: How about rationing at the start of a war before the military demands will reach their peak of demobilization and storing the rationed products; would that help bring a balance?"

In our studies, we submitted a report early in the game which indicated that in our opinion the building overnight of a tremendous synthetic fuel industry for a war purpose wasn't in the cards.

Now, that hasn't anything to do with the desirability of making liquid fuels synthetically, or the economics of processes; it simply looked like there wasn't a feasible way to meet a shortage during a war, and in effect, we reported that.

So, that left us with only three things to do: one is to say that the military couldn't have that much petroleum to fight a war -- which, if the requirements are right, is the same as saying we couldn't fight a war -- or some type of stock piling of petroleum or its products.

We haven't made any recommendation to the military concerning stockpiling. We have reviewed with them the desirability, practicality, of this reserve stock; and the stock for immediate use has been discussed by Admiral Foster and others this morning, and we are working along with that.

I was trying to assess the feasibility and desirability of stockpiling of synthetic products. There is one simple figure that I would like to give you, because I imagine this is going to be discussed in months and years to come, and it isn't a conclusion of the Committee, it is just a set of numbers in which to hang your thought.

Suppose it was deemed desirable to store some products so that we would have a bigger inventory for the production required by the Army in the event of a war. Let's not worry about what products, but let's just say "products". If we were to store a hundred thousand barrels a day of products,



we would have to build a hundred thousand barrels a day steel tank every day.

That amount of steel appears to be equivalent to about 20 per cent of the steel that is currently used by the steel industry for tanks, and would require a stepping up of tank production by about 20 per cent.

Just a little thing like a hundred thousand barrels a day.

We just simply took that figure because a hundred thousand barrels a day was a nice round figure, and we checked it against your requirements for tanks, and it looked like it was a pretty big figure.

There was also a possibility that the industry could obtain over and above all its other activities without stretching itself too far. Whether they could do that depends on plans, appropriations, possibly necessary legislation, and a lot of other things.

Now, when it comes to what to stock pile, if anything, again, the Committee hasn't given any opinion or recommendation, but in our discussion it seemed to us that kerosene would be a good thing to stock pile, because kerosene is a small part of the barrel. We know from past experience that if we get in any difficulty during the war, kerosene can be used to run diesel locomotives, it can be used in a pinch for the Navy; and finally, you can crack it up and use it in jet planes. It is a

relatively more stable product.

Then, another thing, it seemed desirable to stock pile alkylate. We have had some discussion about alkylate this morning, but I would like to talk about it from a stockpiling standpoint. You can put kerosene where you are going to use it, but if you tried to stock pile alkylate, you would have to put it near a refinery where it could be refreshed and blended into aviation fuel, for such emergency.

Now, going over to the more or less immediate situation, you recall when you produced 575,000 barrels a day of 100 octane gasoline during the war. It will take us months to get back there. That gasoline had 4-6/10 cc's of lead in it, and it wasn't grade 115-145, and you could use catalytically cracked gasoline to a very large extent in augmenting the volume.

Our committee estimated, and I once reported here -- sort of a scratch estimate -- that if the Air Forces went over to 115-145 aviation gasoline completely, that our national productive capacity, even if we went back and got all those things running again and got all this blending and all these many things going again, would be slightly over 200,000 barrels a day; because grade 115-145 gasoline wouldn't take a lot of catalytic gasoline as a cracked gasoline, and as made by some companies, it varies a little bit. 115-145 gasoline is an almost pure alkylate, it just has a little bit of white ends in it.

Now, regardless of the liability of the present estimates of the Air Force for jet fuel, if we were to get into another major war, it is just very evident right now that if we did have to go to war, we would be in trouble within six months because our national capacity to produce 115-145 gasoline would not be enough as the Air Force grew in power.

This isn't any "long way down the road" idea; this is something that would come at us very soon if we had to go to war again; and any kind of war, because the current requirements of aviation fuel, if they were converted all to 115-145, and just a few more million barrels of emergency would get us in that trouble anyway.

Now, it is unfortunate that the jet propelled plane has so much glamor about it. It is highly desirable, I suppose, from the standpoint of international relations, that we brag about our jet planes and fly them around and show how fast they go, but it has given the refiners a false sense of security about aviation fuel, because they say, "If you are going to use jet planes, you won't need all this alkylate."

When you look at the military requirements for a major war that may occur any time within the next few years, I don't care how fast jet propulsion develops, the demand for aviation fuel for other types of planes for transportation, is going to be so big that we can't get it with the existing facilities, if it is Grade 115-145.

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Something ought to be done by Government or by industry to stimulate the construction of more of those special facilities that are required for alkylate.

It is quite a tough problem. So far as I know, none of the old mechanisms of authorities which existed during World War II are available. There isn't any such thing as a defense, I don't believe. I don't believe there is a provision for a contract for five years; there isn't any such thing as a defense loan or a low rate of insurance; there isn't such a financing.

So frequently the industry says that it has had to spend so much out of its available funds to meet this increased demand, that while we are doing well on the books they don't have the money that they had in 1941 and 1942, to put in facilities to aid their capital load.

It is a very tough thing to tackle, particularly in peace time, and particularly with this offsetting thought of jet planes; but if we can figure out what to do about it, we certainly ought to do something about it because it is a very real possibility.

Thank you, sir.

The Chairman: Mr. Brown, I think perhaps some questions may be directed. Do any members of the Council wish to ask any questions of Mr. Brown?

Mr. Skelly: I would like to ask one. If the military

were to cut down their use of high octane for ordinary motor-  
ing, for their ordinary flying, wouldn't that provide an  
additional supply?

Mr. Brown: You mean if they used less than 100 octane  
in some planes?

Mr. Skelly: In military motor or fuel use. I notice  
that any one connected with the military, they drive a car,  
they don't use the kind of gasoline I do.

Mr. Brown: What kind of gasoline do you use?

Mr. Skelly: They have got to have the very best.

What kind I use gets me any place that I want.

Mr. Brown: Don't you use premium gasoline?

Mr. Skelly: No. I use the ordinary kind, 70 octane is  
good enough for me. I can get over the road pretty good.

Seriously, maybe the military might put into operation  
some little economies so as not to use the top grade for use  
in ordinary driving back and forth, and ordinary flying back  
and forth.

Mr. Brown: Well, the technical point is this, Mr. Skelly:  
that as the plane is built, the new planes, they are built for  
115-145 gasoline; and as they come more into use and the old  
planes are discarded, there are two things that happen. First,  
they won't fly unless than 115-145; and, second, you can't  
take the octanes out of motor gasoline and transfer them to  
aviation fuel, because there isn't in there -- because there

isn't any alkylate in it.

As far as the use of aviation gasoline in the existing planes is concerned, or for that matter the use of gasoline in the existing land transport, it seems to me that it would be kind of tough to ask them to economize to the extent of using lesser quality than the commercial air lines use or the ordinary motorist can buy at the service station.

Mr. Skelly: That is a good answer.

Colonel Vogel: To allay the suspicion that the military service is using much premium gasoline or anything other than 80 octane, our testimony yesterday was to the effect that we were using 70-72 octane practically entirely in ground equipment.

We do use limited quantities of now called premium gasoline in our tanks, but that suggestion has come in at the August meeting of last year and we are fully adhering to it.

Mr. Blaustein: The suggestion has been made, now what would be the next step in order to encourage that procedure? I mean, the suggestion is made; do we do anything with that suggestion, or where do we leave it?

Mr. Brown: The Armed Services Petroleum Board asked us, we haven't figured out yet what the answer is, Mr. Blaustein, except that we think it takes legislation. That means it would go to the Munitions Board, Joint Chiefs of Staff, committees of the House and Senate, and then a lot of testimony

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a lot of argument, back-fighting, and then maybe a bill might be signed, and then might be voted.

Mr. Blaustein: Since the procedure is so long, can't we start some time soon?

Mr. Brown: We are going to try to make a recommendation some time, that is about all I can say.

There is one thing I would like to mention, quite a practical measure, in connection with this alkylate problem, and the possibility of stock piling.

Colonel Vogel asked us yesterday whether we thought that an arrangement could be made in so far as industry is concerned, whether the refinery would be willing to work out what you might call a refinery reserve storage or stock pile, under which the Government would contract for, say, a hundred thousand barrels of alkylate.

The refinery would put it in a tank, he would be the custodian for it, and presumably he could, if he has aviation gasoline, he could use some of the old alkylate so that some of the stuff in the tank wouldn't get too old.

We didn't feel sure that in the present financial state of the industry that they get too many tanks. Where it was necessary to build a tank specifically for that purpose, and they would have no assurance that this thing would happen more than once.

We even talked about the possibility of defense plant

tank. We felt that that kind of a thing would be worked out, that anybody that made alkylate would have practically no use for being unwilling to put it in a tank, make it, and take care of it for the Government.

That is getting down to a small thing, but that is about as far as we could get with anything specific.

Mr. Gannon: Mr. Chairman, I realize that discussing military requirements is important, but may I ask that Colonel Vogel and the other officials, when they return to their sales organization, that they mention the other Government requirements. We have the Coast Guard, the Atomic Energy Commission, Veterans Hospitals, Post Offices, and we are not getting adequate coverage.

In the city of Pittsburgh, today, we are paying a premium to a dealer in a city where most of the major companies operate, and the major companies made it impossible for a great many dealers to buy from us.

The Chairman: If you desire to supplement that statement further, we will give you the privilege of the floor to extend your remarks.

Mr. Gannon: Thank you very much, but I think that covers the ground.

We have had to make it a matter of personal solicitation, some one in the company to rebid on our requirements, and then when we get them we hold to them instead of making it



strictly a business deal.

Mr. Wilson: Dealer to buy from you?

Mr. Gannon: Supply us.

Mr. Wilson: You said "buy" from you.

Mr. Gannon: I beg your pardon.

We have had dealers supplies in the past that were cut off.

Mr. Wilson: Cut off; or simply held to the same allocation that every other dealer is?

15 Mr. Gannon: They were told they couldn't bid any more.

Mr. Wilson: I question that. My guess is that they told them they had their allocations. I don't think that any one has told them, any dealer, what they should do with their gasoline. They may have said that you can't have any more than your share.

Mr. Gannon: I have a letter that was written by a major company to a dealer, that I probably shouldn't have received, that was written to the major company at my solicitation, with regard to a particular account that this dealer had. He referred to the fact that they were very sorry, but they couldn't continue; and they mentioned very ridiculously in the letter that the supplies had been greatly increased, our production is increased, we can not increase your allocation.

Of course, the allocation he may have may differ from allocations to other sources, I don't know.

The Chairman: Thank you.

Gentlemen, you have heard here this morning the story that prompted me to write to every member of this Council and urge his attendance at this meeting.

I think that request has been fully justified. I have been very much pleased at the fine response and attendance of the Council at this meeting.

I recognize the fact that since we last met here on the fifteenth of April, that we have gone through a period, and that there were many dire predictions as to what was going to happen to the petroleum product users of the country during the recent months.

I think by reason of the performance of the industry, that a great deal of that anxiety and tension has been displayed, that by a feeling of confidence we have gone through a critical time, and that the responsibility to the people of the country has been more than met.

Our problems have not all been solved. They are still with us. You have heard them here this morning, heard them expressed in realistic fashion, and understandable language.

It seems to me that every member of this Council must be impressed with the necessity of our being on guard.

These problems are critical. We must look for full cooperation if we shall be able to measure up to their responsibility which lurks and looms in the future, in the immediate

future.

I am very glad that Secretary Krug has had the opportunity to sit in with us this morning, and to have the benefit of this discussion.

It has been impressive as to what he had in mind when his Council was created, and justification of that objective, we are here, Mr. Secretary, have come to Washington in a July period when many people are not anxious to come, but we are here to indicate our full desire as a great American industry to render every cooperation to our Government.

I know the members of the Council should be very pleased to have any message from you.

Secretary Krug: Thank you, Mr. Chairman.

Gentlemen, I, too, am very grateful and also very much impressed by the excellent attendance this hot July morning in Washington.

The Council is to be commended for taking its responsibilities so seriously.

I was also very much impressed by the fine presentation Admiral Foster and General Larkin and Colonel Drake, as to what is being done to meet these military requirements, and what must be done in the future if the industry is going to do this vitally important job.

Your Chairman and I were talking about it during the presentation. It seemed to both of us that we are really

getting down to facing realities and doing something about it, and that is the way this industry performed miracles during the war, and that is the way you are going to do the job which lies ahead.

I think these committees that have worked so hard to that end deserve a hearty vote of thanks not only from the industry, but from the entire country.

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I know if the problems are not resolved it will be <sup>discovery</sup> that the committees or the leadership on these committees and they have performed excellently; however, I think it is perfectly clear to all of us that we are facing an extremely critical period.

I don't know how much has been told you about the military and the international picture here this morning, and I don't pretend to be an expert in it, but I can tell you all I know about it in a few words. That there isn't anybody in this country, I don't care where he sits, will tell you whether there will be a war or not. There is one big group which advocates for the possibility of an immediate war because Russia can't hold much together at home; there is another equally wise and experienced group who feels strongly that Russia is bluffing, and that if we continue to stand firm, there will be no war.

I have listened to the experts in both groups, and I think you would share with me a feeling that there is no

possible way of knowing.

In that event, all we can hope to do is be fully prepared at home, just as strong as we know how to make ourselves.

With that critical situation facing us -- and it is going to go on, certainly, for a period of months -- it is going to be confused by all sorts of international rumors, and domestic rumors, that are inherent in that kind of a situation.

We also face here at home one of the most trying periods, the election of many new candidates for high governmental offices, and during that campaign there will be many hot issues-- and perhaps on many of them members of this Council will violently disagree -- it is rumored -- I am sure that if all of you were Democrats, there would still be some violent disagreements amongst you.

(Laughter)

It is rumored around a little bit that a few of you are Republicans.

As a matter of fact, I think I saw our handsome chairman pounding a gavel not long ago, and he did a very able job.

(Laughter)

All I want to say at this time, let's not let the international disturbances or the domestic ones confuse the job that this Council can and must do. If you get sore at me, that is all right; but let's keep that out of the Council room.

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If you get sore with one another, don't let it affect the vital work of these committees.

Just the other day, your chairman set up a new committee to work on national oil policy. I can't think of anything more important. I would hate to have that committee's work influenced in any way by the national difficulties of the months ahead.

I think you all know that Max Ball has been anxious to resign for many months. He has been imploring your chairman to work with me in finding a suitable replacement, but in view of the difficulties that we are facing, I have practically drafted him to stay enduring this critical time. While he hasn't definitely said "yes", I feel strongly that if the Council feels the way I do about it, that Max will stay with us and get us through a difficult period, when certainly, the work of this Council and its committee will be all-important.

(Applause.)

I hope that means, Mr. Chairman, that you will get a resolution from the Council to put the handsome little fellow right on the spot.

The Chairman: I think you have got him right there.

~~Secretary-Krug~~: Now, there will be, of course, in the future, these recurrent problems, as outlined by Admiral Foster and General Larkin.

I do hope that the very suggestions made here this morning

will be taken seriously by all of you leaders in the industry, and that in the couple of months ahead, where we need a new burst of encouragement, that we can do the job this way: we will find a prompt and ready response to these vital orders for military fuels. I know that Colonel Drake will continue to put his enthusiasm, all of our people will cooperate, I am hopeful, Admiral and General, that you will have that picture looking better in a short period of time.

I don't even want, this morning, to speculate on the future of oil demand and supply, but I think all of you know that we need more oil, we must get it, and I think through the various measures that are under way in this Council now, by getting more steel, by getting greater cooperation between units of the industry, greater cooperation between industry and Government, we will continue to expand the supply.

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Keep up the remarkable record of the first six months of this year.

I appreciate this chance to say a few words to the Council.

(Applause.)

The Chairman: I do want to say before you leave, about that report, about my having to spend some time over at Philadelphia, is extremely exaggerated. The truth is, I was trying to make Max Ball stay on and finish this job.

Secretary Krug: Thank you. You have apparently

succeeded, and I appreciate it.

The Chairman: The work of this Council has been successful in great measure because of the splendid cooperation we have had with the Director of the Oil and Gas Division.

We had a man who knew our problems; who looked at them from a fair and impartial standpoint, and it has seemed to me, as events have moved along, that we could ill-afford to lose that connection which meant so much to the success of this effort which we have been making; to cooperate in a successful and satisfactory manner with our Government.

Max Ball has impressed upon every member of this Council has complete fairness, his scope of understanding of every problem, and it has been most gratifying to have him appear in many instances as a witness before the committees of Congress; because he has been competent to tell the story of the achievements of the petroleum industry, and tell the story in a way that commended the industry which we represent. It was the happiest news that I have had for a long while, Max told me this morning that he had finally arranged to remain in his present position until after the next meeting of the Council, and I didn't tell him just exactly when that would be.

(Applause)

The Chairman: Mr. Ball?



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Mr. Ball: Gentlemen, all this doesn't quite have me weeping, but it does have me wiping my nose.

(Laughter)

Nobody could have said about him what Walter has said, the Secretary has said, and what you in effect have said, and what you have been saying to me, without being very deeply touched by it.

I am under the spell of certain necessities that I have told you before. A man can't walk off and leave his business more than a certain length of time and have any consulting business to do. I have stretched that to what I think is the ultimate limit of the last destiny, but I told Walter, and I told the Secretary this morning, that I would stretch it enough further to stay through the next Council meeting.

I did specify to Walter yesterday that if I considered such a thing he would have to agree to put the Council meeting at the normal time, in the month of October, and not at the end of the month as this meeting came. The normal time would be the fourteenth.

(Laughter)

I can foresee that between then and now that there will be pressure to have me stay until after election, stay until after the administration changes, if there is going to be a change; or at least until after the inauguration.

I hope you won't expect that of me, that you won't expect

me to stay beyond the period that I am now fixing, which will be shortly after the next meeting of the Council in October.

The period of time between then and the reconvening of the new Congress will not be too long. The period of time between then and the inauguration will not be more than a few months, and I hope that by that time, by the time of the next Council meeting, I hope this extension of my time is not going to lessen by one bit the effort that Council and its committee have been making to find a successor.

I would like very much to see this job upgraded when I leave, by having a better man than I am come in and take it. I believe so thoroughly in the thing we are doing together that I hope you are going to go out and find a man who will upgrade this job so it can be done better than it has been done.

And I hope you will not let down one minute in your efforts, because if you can find that man between now and the middle of October, I will be very happy to step aside of his path.

(( If there should be a gap between my leaving and another man coming in, I have no apprehension about that because we have in the Oil and Gas Division a consistent gentleman in Robert E. Friedman, who, if you folks only knew it, and he only admitted it, is perfectly capable of making an excellent Director of the Oil and Gas Division. But the chief diffi-

18 culty is that when I talk to him about it, the possibility of trying to get him considered for it, he says aloud and a firm "no" that he, in his own opinion, is not yet a qualified candidate for the directorship.

That is not the only thing on which Bob and I differ. One of Bob's great values is that he is never a "yes" man; and because he differs with me from day to day on lots of things, he has kept me from making a lot of wrong decisions and making lots of wrong moves, and saying the wrong thing on many occasions, and he has also initiated many of the things that during my period as oil and gas director, I have gotten credit for.

That is something that I think you should know; that a great deal more credit for the way this job has been done, the job that you like as you have indicated, should go to Bob Friedman.

However, all that may be, but I will be with you for one more Council meeting.

Thank you.

(Applause.)

The Chairman: Mr. Hill?

Mr. Hill: Mr. Chairman, with his characteristic modesty, I know with great sincerity, in hopes that this job will be upgraded and his successor named; but I know that I speak for every one in this Council when we say to him that his service

and his name will be remembered as an example of the very highest quality of devoted public service that the man offered to his country.

He has brought not only a very high degree of promptness to his position, by the fairness and the tolerance, and his great earnestness; he has given a confidence to the voice of the Government, and he has been a great influence in this Council.

I can assure him that his example here, and his leadership here, will be something that we will always cherish, and will always be highly valued by those of us who have served.

(Applause.)

Mr. Majewski: The speech ought to be written up and attached to that antipoll tax measure which is being considered by Congress.

I would like to see George put it in resolution form.

Seriously speaking, commending not only Max Ball, but also his very capable assistant that he so well acknowledged the service of; I think, George, if you will make that a resolution of appreciation, I think we ought to put it on the record of this Council forever, as to what we think. Then, Max has four grandchildren, and that will be something for them to see.

I second George's motion for the resolution.

(Laughter)

The Chairman: Motion is ordered.

Council will now recess until 2:15.

(Whereupon, at 12:45 p.m., a recess was taken until 2:15 p.m., this same day.)

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# AFTERNOON SESSION

Interior

The hearing reconvened at 2:15 o'clock p.m., upon the expiration of the recess.

The Chairman. The council will be in order.

Gentlemen, I am very glad to be able to report to you that Mr. James, who had a slight attack of illness here this morning while presenting the report of the Liquified Petroleum Gas Committee, seems to be coming along fine. The doctor indicated a slight attack of indigestion. I thought it would be very pleasing to you to know that he is all right and is going back home this afternoon.

He asked me to express his regrets that the situation arose, but that is something that none of us can help.

Mr. Russell Brown, as chairman of the Committee on Petroleum Industry Steel Requirements, has prepared an additional progress report in connection with the important matter of steel allocation, and I would appreciate it if Mr. Brown might present his report to the council at this time.

I think it ties in very closely with the critical problems we have been discussing here this morning.

Mr. Brown, we would be very happy to hear from you at this time.

Mr. Russell Brown. Mr. Chairman, this will not be a committee report, but simply a report of the chairman of the committee sitting here observing for the committee.

The detailed report on the industry's steel requirements, prepared by the National Petroleum Council's Committee on Petroleum Industry Steel Requirements, was completed in March of this year. It was submitted to the Department of the Interior on March 16, 1948, and forwarded to the Department of Commerce. It was presented to the council at the April 15, 1948 meeting and was adopted by the council on that date. The developments since the April 15th meeting of the council are briefly summarized as follows:

At the outset it should be understood that the council's Committee on Petroleum Industry Steel Requirements has acted only as a fact finding group to estimate the steel needs of the petroleum industry, as requested by the Oil and Gas Division of the Department of the Interior. The committee has no responsibilities regarding the formulation or adoption of any program of voluntary allocation of materials.

With the exception of certain supplemental information furnished in support of its estimates, the committee has not participated formally in any of the activities relating to voluntary agreements in connection with the steel needs of the industry. The consideration and negotiation of proposed agreements has been entirely a matter of concern by government agencies and representatives of the steel industry. The

committee has not been called upon for any advice in connection with these matters.

In that connection I want to stop here to say that the Department of Interior, Oil and Gas Division, Max Paul and his associates, have been very, very helpful and have been very constant on pressing the steel situation with the Department of Commerce; and the Department of Commerce, I think, has been doing a very useful work there.

The results are something that we will have to appraise later.

The committee's report, as submitted in March of this year, showed a total estimated steel requirement for all branches of the industry amounting to 10,381,000 tons on an annual basis for all steel mill products for all branches of the industry.

This requirement included all direct and indirect needs for material and equipment containing steel whether this steel was shipped direct from the mill to the industry, as in the case of certain tubular requirements, or whether the material reached the industry indirectly through suppliers and fabricators in the form of finished material and equipment.

Included in the total industry's requirements was a figure of 216,200 tons for the construction of railroad tank cars. A voluntary agreement was already in operation covering freight cars and, if this quantity is deducted from the



industry's total needs, the remaining requirement equals 10,164,800 tons on an annual basis.

As of this date there is no voluntary agreement in effect for supplying the industry's steel needs, with the exception of the above-mentioned freight car program which was in operation prior to this committee's report. The Department of Commerce, however, has announced two proposed plans for the voluntary allocation of steel as follows:

A - A proposed plan for the voluntary allocation of steel to oil field tanks and surface production equipment including separators, heaters, emulsion treaters, etc., This proposed plan would provide 16,529 tons per month for this equipment, or a total of approximately 200,000 tons on an annual basis. This plan is scheduled for public hearing on August 4, 1948.

B - A proposed plan for the voluntary allocation of steel for freight-carrying barges and towing vessels (both wet and dry cargo barges). This plan would provide approximately 20,000 tons of steel products monthly, or about 240,000 tons on an annual basis. The petroleum barge requirements, as set forth in this committee's report, amounted to 212,700 tons on an annual basis which would not include, of course, dry cargo barges or barges used by other industries. This

proposed plan is scheduled for public hearing on August 5, 1948.

The two proposals outlined above covering surface production equipment and barges deal with a little over four hundred thousand tons of steel or approximately four percent of the industry's total steel needs.

In addition of the two above proposals, it is understood that a proposed plan for the allocation of steel for tankers is being formulated. The tanker requirements, as set forth in this committee's report, amounted to 247,200 tons on an annual basis, or a little less than two and one-half percent of the industry's total steel needs.

According to the Department of Commerce, surveys are being conducted by that department with a view toward obtaining further information on steel requirements for storage tanks covering both the tanks used by the industry as well as farm and home storage tanks. With the completion of these surveys, consideration will be given to a possible voluntary agreement to provide steel for petroleum tanks.

Approximately fifty percent of the industry's total steel requirements, as set forth in this committee's report, were for tubular goods including Oil Country Goods (casing, tubing, and drill pipe) and Line Pipe for both oil and natural gas.

These tubular requirements have been the subject of

considerable study and discussion by the Commerce Department and representatives of the steel industry. No plan for voluntary allocation of these goods has been approved by the Steel Products Advisory Committee to the Commerce Department.

According to the Commerce Department releases, the failure to adopt any plan as yet for the voluntary allocation of steel for tubular goods is based on the assumption by representatives of the steel industry that present production of these materials is at a maximum and they feel that a voluntary agreement would serve no useful purpose.

In this connection it should be noted that the representatives of the steel industry have stated that the current output of oil country goods will be at a rate of approximately 1,600,000 tons per year. This would be approximately equal to the estimated requirements of American companies in the United States and abroad and would represent an increase of forty-five percent over the 1946 volume and fifteen percent greater than the 1947 output.

In the case of line pipe, the planned annual rate of production equals 1,725,000 tons per year which is almost eighty percent larger than 1946 and forty-four percent above the 1947 production rate, but far below the industry's current needs.

It is apparent that the petroleum industry's increased needs for tubular goods have been recognized by the steel

industry and a substantially larger total tonnage is being made available even though no voluntary allocation plan is in effect or under immediate consideration.

In connection with the distribution of tubular goods, the following statement appears in a release of July 20, 1948, of the Department of Commerce, commenting on a meeting of the Steel Products Advisory Committee:

"In connection with a proposal that the steel industry consider a voluntary agreement to require certification of usage by purchasers of oil country goods, the committee expressed the view that 'the steel industry cannot supervise the ultimate distribution and use of oil country goods once the material passes into the hands of consumers'."

In conclusion it would appear that the voluntary agreements now under consideration for the allocation of steel to the petroleum industry cover a relatively small portion of the industry's total steel needs. Although a substantial increase in steel for tubular goods will be provided whether or not an agreement is formulated for these materials, the representatives of the steel industry have expressed an unwillingness to incorporate any provisions in a voluntary agreement dealing with the distribution of these steel materials.

I understand there are some further negotiations in the

Department of Commerce as to some of the other segments of our steel requirements.

I understand that Mr. Hahn will probably be here before this council meeting and can probably bring us down to date on that.

There is this to be said, that it may cause the committee to have to reconvene at some future time. You must remember that our chart was to keep on a continuing basis. At the time we started our work we asked for an estimate of the production requirements and based our entire steel estimate on that estimate of production.

We have now reached that. We estimate we would need to drill this year approximately 27,500 wells, or about 130 mile feet of hole. At the rate we are going, we will probably drill more. We will probably drill nearer forty thousand wells, and the evidence now is that we will drill considerably more than 130 mile feet of hole.

The Chairman. Before asking for any comment of the members of the council, I would like to call upon Mr. Bowman, of the Department of Commerce, for any comments he wishes to make in connection with Mr. Brown's supplementary report.

Will you come up here, Mr. Bowman, so that everybody will be able to hear you?

Mr. Bowman. Yes.

I am acting as a pinch hitter as my good friend Russell

Brown has stolen all my thunder. He has told you all the story, and there isn't much more for us to say, perhaps.

You may be interested in knowing that there are just two of us over there in Commerce who are acting as your agents in attempting to get steel for petroleum. We are rather outnumbered, but our whole interest is really yours. We are sincerely interested in getting steel to increase the flow. I know that is what you people want.

Mr. Brown has just mentioned the projects that we have. In connection with a survey of them here, what we attempted to do was to take the requirements as presented by the council and make a breakdown into small pieces. Ten million tons of steel in the steel industry in one piece is likely to cause a little indigestion, so we decided it might be a little more digestable if we broke it down into smaller bits.

We have attempted to do that.

The oil country goods, as you know, are estimated in production at about one million-six a year, which is reasonably in balance with the requirements. Line pipe is the sore question. The story is that the steel industry production in the mills is about 1,725,000 as compared with upwards of four million in your requirements.

Now, it isn't coming close to meeting your needs. But if the stories are true, the pipe mills are running at full capacity and there isn't much that can be done beyond that.

We have heard stories, as I presume you have, that the pipe mills are not running at full capacity. If that is true, then it is a matter of conversion to plate to feed the mills to make more pipe.

Now, we hope to have a clear picture on that very shortly. If A. O. Smith and Consolidated Pipe are not running full time on pipe production, it will then be a question of attempting to persuade the steel industry to divert more steel to pipe making.

Our capacity, as you understand, is simply one of persuasiveness. We have no authority. Our job is to try to get the facts and then persuade the steel industry to underwrite it. It is not a very satisfactory job. We have not had a report that I think you gentlemen are going to throw your hats in the air about.

I just do want to say that we are doing everything we can to get clearly before the steel industry the urgency of steel for petroleum production. I think we are doing that. They do know the facts and they have underwritten a few programs.

Russell Brown mentioned the car program which we have now. We have barges coming up next week, also wellhead equipment. We are getting a tanker program underway. We are making a survey now of tankage steel; that is, in the field, pipe line, refinery, bulk stations, terminals, and also the other category of the small tankage for home storage, farm

storage, LPG, and so forth.

We are getting those together, and little by little I think we are sneaking up on it.

I am speaking very frankly to you now, but these are the facts, and I can assure you this, that we are thoroughly earnest in our efforts to get you what we believe you need.

This little summary that we have made up, I am afraid I did not bring enough of them, but if you gentlemen have a question which I can answer, I will be delighted to try to do so.

The Chairman. Mr. Jacobsen.

Mr. Jacobsen. I would like to ask something, and I don't know whether you can answer it.

That is: If it is a fact that the manufacture of oil country goods is practically in balance with our needs, or perhaps even a little bit larger, why does so much of it  
? get into the gray market?

Now, we placed our orders with the steel mills and we cannot get delivery. They will take an order for delivery eight months hence and then a month later they will cancel half of it. We cannot get half of our requirements from the regular pipe mills from whom we have been buying pipe these many years.

Then all sorts of people, who are not in the business at all, come and see us and call us up on the 'phone and if we



want to buy the pipe we have to pay a premium of one hundred percent, or even two hundred percent over the price.

I notice here that the steel industry gave us a very nice brush off in this report that is quoted in Mr. Brown's report, where the committee of the steel industry said:

"The steel industry cannot supervise the ultimate distribution and use of oil country goods once the material passes into the hands of the consumers."

Certainly they cannot, but how is it that it does not get into the hands of the consumers? If it got into the hands of the consumers there wouldn't be any kick if they are making all we need.

But how does it happen that it gets into the hands of the gray marketeers? They are all sorts of people who are not in that line of business at all. How can they get the pipe when the rest of us cannot? All we have to do is to pay a premium of one hundred or two hundred percent and then we can get it.

The Chairman. I assume you are directing this question to Russell Brown as well as to Mr. Bowman?

Mr. Jacobsen. I am directing the question to anyone who can answer it, you included. I just want to know how.

(Laughter).

Mr. Bowman. I am sorry the steel industry is not represented here because I would want them to answer that question.

Mr. Hahn and I were very urgent to have a certification put in. It does not seem to me it would require placing replies on the part of the steel industry. If they had a certificate which simply stated the end use to cover that, it would be protected against this very thing you are talking about.

Now, they are under a cloud at the moment.

Mr. Jacobsen. Yes, but what I would like to know is how does the pipe get into the hands of all these funny brokers?

Mr. Bowman. I am sorry; I cannot answer that.

Mr. Jacobsen. But they can get it apparently.

Mr. Russell Brown. Mr. Chairman, I think that is an entirely appropriate question. I asked it so many times myself. About the only difference is that I asked: How in the hell, instead of how in the devil.

We as an association and not as the chairman of this committee submitted to the steel people what we thought was a simple way of avoiding the very thing you are talking about, and that is:

(A) That they voluntarily allocate sufficient steel to maintain all pipe line making facilities to full capacity.

That they say they are doing. Maybe they are. That, I don't know, but that was not an unreasonable request.

(B) That they voluntarily adopt methods of sale and distribution that would eradicate any gray market.

(c) That they voluntarily adopt methods of distribution to make the supply available only to those who certify such goods for immediate use and not for storage or retail at premium prices.

(D) That they voluntarily establish emergency stocks of materials from priority delivered to operators requiring such materials for completion of successful exploratory wells.

We are simply stating, and as we tried to argue with the steel people, that this (D) would simply mean that if eight people started out to drill wildcat wells today they have to have a string of cases to prove it.

? Under this system, since we not more than eight, we will need a string of cases. One string of cases will serve all eight, so there will be a great saving in steel if they will adopt that latter suggestion.

About the other remark concerning the brush off, as I interpret it, they brushed off by saying that they are not required to police consumption. I don't think anyone is asking them to do that, and I don't think they would be required to do so if they would feed it into the normal channels of usage. It would flow naturally to the places of consumption. They would have no responsibility of taking care

of their usual customers.

On the contrary, we find steel every place, in the most unsuspected places, every place except in the field of operation, although finally we get a lot of steel.

That would seem to be the answer, that we get the steel. But anyone that talks to an operator and finds the devious methods he has had to employ to get that steel would see the burden that is thrown on industry that could have simply solved.

Of course, part of the steel that they have indicated making, a large proportion, we think, is going outside of the United States; and that of itself would be deducted from our local supply. But answering your question directly, only the steel people can answer that. And I have also asked them that.

Mr. Blaustein. When you submitted these suggestions to the steel people, what was their reply to that?

Mr. Russell Brown. This brush off that I just referred to.

Mr. Blaustein. Did you go further with it, or not?

Mr. Russell Brown. As chairman of this committee, it is not my function to do anything except for our committee to submit the facts as an association. I don't know where we are going except further.

Mr. Blaustein. Is there anything this committee could do?

It seems to me it is so vital to the picture.

Mr. Chairman, is there anything this committee can do with the steel industry that might help?

The Chairman. Mr. Blaustein, this committee, of course, was formed at the request of the Director of the Oil and Gas Division to investigate the situation of steel in the petroleum industry. That job has been done.

Now, as to the exploration of the economic weaknesses of the present system, I should doubt that the committee would be empowered to go into that sphere. But certainly Mr. Brown has an association that would be quite interested in undertaking to investigate that, as far as it could.

As long as you are going to have consumers who are willing to pay these high prices you will find somebody who will get it in devious ways to supply it. It is the old law of supply and demand.

Mr. Blaustein. You feel, then, it is outside of the province of our committee to do anything?

The Chairman. I think it is outside of the province of this committee.

Mr. Russell Brown. I agree that it is outside of the province of this committee, but I don't agree that it is outside of the province of this council. That is different. I think the council could empower the committee to do that.

The Chairman. Upon the request of the secretary.

Mr. Russell Brown. That is right, through the proper channels.

I think then a reasonable request of the steel industry would bring them to a greater recognition of the necessity of the law authorizing them to supervise the distribution as well as the manufacturer.

So that is a part of the function under this law. For years a large part of the petroleum industry have advocated voluntary agreements within the industry under the supervision of some governmental agency. Here is a law that recognizes that for the first time in years, and it seems to me that the further use which the industry can make of that law is to take care of its customer requirements. It seems to be not an unreasonable request to ask our principal supplier to accordingly fit himself into such a program.

I take it that a word from this council would go a long way to get it.

Mr. Blaustein. It seems to me that this problem, then, if it were proposed to the secretary and if he would make a request for the council/<sup>to</sup>do something, that it might be an appropriate and desirable thing.

The Chairman. We have Mr. Ball here at the moment. He may be able to say something about that.

Mr. Ball. Let me call your attention to this: There are two ways that business can originate in this council.

One is on request of the Secretary of the Interior or the Director of the Oil and Gas Division, but the other one -- and the one I think should be used perhaps more than it is -- is that this council itself can originate business with the approval of the Secretary or Director of the Oil and Gas Division.

Anything this council wants to take up, if it receives that approval in writing -- which I can give you in two minutes -- this council can take up.

Mr. Majewski. I think that is dangerous ground, myself. Why should this council investigate steel prices? Why shouldn't the steel industry investigate gray market prices in the oil industry? I am amazed at lawyers like Senator Hill here, who I was going to say is resting, but he is reclining comfortably.

(Laughter).

I think we are just out of bounds on this score, whether it is on our own motion, or whether it is on the motion of the Director of the Oil and Gas Division. We have to quit talking about the prices being paid for steel, because they have just as much right finding out what is wrong with our prices.

Mr. Jacobsen. I wasn't asking the question of the price of steel. I was just curious to find out how steel which cannot be bought directly can be bought from crooked brokers.

Mr. Majewski. That happens in our own ranks, and I don't

want them to ask us about it.

Mr. Wilson. I talked with some people with regard to this phenomena, but I am sure they regret it and I don't think we ought to get the idea from the discussion that this goes from the steel companies to the funny sources.

In general, practically all the steel starts down one of the regular, ordinary channels; but some place along that channel there is a weak link, a man who is attracted by a higher price, and it is diverted from the regular channel into these other channels.

But in general we can believe the assurance of the steel people that they do start it down through their regular customers.

But, of course, customer needs are always changing. Some customer may have had a big demand in 1945 and he insists on getting it in 1946 and 1947, and he gets into the gray market. That is what happens, and it is not steel or any other industry that is to blame.

I am also kind of in agreement with Barney that we have some gray market prices in our own industry and then we have to be a little careful.

Mr. Hill. Mr. Chairman.

The Chairman. Mr. Hill.

Mr. Hill. I hate to be jostled out of my position as indicated by Barney, but I am his counsel. He has given me



a credit card to his stations.

(Laughter).

But I think he made a very wise observation about this being something utterly beyond our province. This is a matter for the voluntary trade agreement under the Taft Act, under the supervision of the Secretary of Commerce, and procedures to be voluntarily established for the allocation of that product would have to be a part of their voluntary agreement and proved by the Secretary of Commerce and the Department of Justice and then by the President of the United States, as in our case.

You will hear shortly the report about the status of our voluntary agreement, which is as yet unapproved. I don't believe that this is a matter that the council could rightfully initiate, or lawfully initiate, and I think it deals with a subject matter which is only in the area of voluntary agreement.

Under the Taft Act that is largely in particular departments with respect to particular commodities, and in the case under discussion it is largely in the Department of Commerce.

I think that where it can be done in a practical way other than through the activities of associations would be for Mr. Ball to talk to Mr. Harriman and suggest the existence of this problem.

Now, even in our small operations I had Mr. So and So of

the Savoy Plaza call me long distance and tell me that I can get whatever pipe I want at deliveries of four, six, eight, ten or twelve weeks hence from a named mill. And I got his room number and I got his name, and in order to check and double check I had him call my purchasing agent. I thought the proper thing to do there was to call the representative in Texas out of the mill this man purported to be getting his supply from and tell him the hotel room number of the man and that he was there physically present and put the monkey right square on his back.

But I think that is perfectly outrageous and that two hundred percent is a modest excess charge that they now impose on those that are in a state of necessity.

But I believe that in talking about any other industry's agreement, that we would have to proceed in accordance with the Taft law and through the department head who has jurisdiction.

Mr. Barton. Mr. Chairman, just to open this thing up, I would like to know if, well, the larger companies, or smaller companies, are undergoing the type of thing that we are. I was told at the beginning of the month that we had a million dollars worth of pipe on hand, that we were paying three dollars for it, the price being \$1.15.

I know on three occasions we have furnished three different letters of credit with a quarter of a million dollars.

The boys were foolish enough not to require the other folks to put up the same thing, but in neither one of those cases have we been able to get any pipe on that situation.

One of my banking friends in New York called me the other day, and I asked him where he wanted to ship his pipe from, and he said from Pittsburgh. He wanted to make a contract for several months.

We are having those things every day, and I am just wondering if everybody else in the industry, particularly those of us who are drilling wells, are having that same trouble.

Are you?

The Chairman. I don't think so.

Mr. Barton. Well, you have been fortunate. I am telling you, I have always been so opposed to black marketing and everything, except for liquor in the old days.

(Laughter)

This is the first time that I have been subjected to it, but it is just terrible.

We think that our regular suppliers are doing a fair job with us, but the great trouble of it is that their allocations are based on our previous experience. Where you are drilling more wells, you are just S.O.L. I imagine some other of us in this industry find that we have leases that must be developed by a certain time with production on particular university leases in Texas, and it has just been the worst

problem that we have encountered since I have been in the business.

Is that common experience?

The Chairman. As far as I know, it is pretty common right now, Colonel. You might canvass the situation more extensively.

The question is upon the acceptance of Mr. Brown's report.

Mr. B. C. Graves. Mr. Chairman, I was interested in page 2 of Mr. Brown's report. Included in the total industry requirements was the figure of 216,200 tons for the construction of railroad tank cars. A voluntary agreement was already in operation covering freight cars, and if this quantity is deducted from the industry's total needs the remaining requirement equals so much.

I take it from that that this steel committee is no longer interested in seeing that steel is required for the construction of tank cars.

Now, as you know, this voluntary agreement is for the car builders, and steel is being used for the construction of boxcars, for gondolas, tank cars, for the chemical industry, molasses and alcohol -- which I think the Colonel will approve

(Laughter)

But, nevertheless, it does not reflect and it is thrown into a general pot. I am just wondering whether this steel committee of this council could not continue its interest in

seeing that 216,200 tons of steel are allocated for the construction of tank cars for the petroleum industry.

The Chairman. As I understand it, Mr. Graves, this committee is to continue its interest in this whole subject.

Mr. B. C. Graves. It seems to me they have just taken it out of their total and are relying more or less on the ODT.

I cast no reflection on the ODT, but I do know that the ODT has diverse interests.

This connection, I understand today that both the Army and Navy are making inquiries to build tank cars and are in competition with the petroleum industry for the steel to build tank cars. That is duplication and there should be some point of coordination.

I believe this committee should continue in seeing that steel is provided for tank cars and when it is provided that it is used for tank cars for the petroleum industry.

Mr. Russell Brown. In answer to Mr. Graves, I want to say that he probably misunderstood the report because of the way it is worded. What I intended to say is that we made our estimate of the steel for the tank cars, but there was an agreement in effect for 216,200 tons for car construction, and I took that out of the total. That left 10,164,800 tons that was not covered by any agreement.

That does not mean that the other requirements of tank

cars that had been set up should not be continued just the same, and the total estimate we have in our steel is an estimate of the requirements.

Now, if you change the need for tank cars, then that would be the supplemental activity of the committee to so state that. I know of no reason why it could not be done.

Mr. B. C. Graves. I just wanted to call the attention of this committee to the fact that daily your supply of tank cars is shrinking, and the construction of tank cars for the petroleum industry is not keeping up.

It is very vital, in my opinion. If the petroleum industry wants fair transportation, something more must be done than what is indicated by this report.A

The Chairman. I wonder if there is anyone here who is a representative of the ODT who might be interested in commenting upon Mr. Graves' suggestion.

Is there a representative of the Office of Defense Transportation here?

Mr. Christians. Yes, Mr. Chairman.

Christians is my name. I think the ODT is making every effort to get as much steel allocated for tank cars as the other groups of railroad equipment.

In connection with the statement about the Army's inquiry for two hundred new tank cars, it is our understanding that represents a long-range program of replacements for the

Army.

There is going to be no special preference given to the construction of these cars, it is my understanding.

In other words, they are at the bottom of the list on the car building program.

The Chairman. Thank you very much.

The question is upon the acceptance of Mr. Brown's report.

Mr. Ball. Going back to this thing that was being discussed a little while ago, on tubular goods, there are two or three angles to the thing.

One is that this question as to whether all tubular goods are being made that can be made, which I think is a fundamental question, in a letter that the Secretary of Commerce wrote to the Secretary of the Interior about this whole matter under date of June 11, he said:

"There seems to be no reason to doubt that the steel industry will continue to supply the necessary tonnage of plates and sheets to the established pipe mills to such extent as is necessary for insuring operations at full capacity through 1948-49."

Now, remember that your pipe mill capacity is the bottleneck. But the neck of the bottle is not so small if they get enough steel to keep them operating to capacity.

And here is the statement that there seems to be no doubt

that they will get that tonnage of plate and sheets.

Later in the letter the Secretary of Commerce concludes from that that no voluntary agreement is necessary.

Now, in a reply under date of June 30 from the Secretary of the Interior to the Secretary of Commerce, he says:

"To avoid any misunderstanding, I am of the opinion that the steel industry should be willing to enter into a voluntary agreement under Public Law 395 whereby the industry agrees that, barring unusual work stoppages and the like, it will produce maximum quantities of oil country goods and will arrange for the supply of the required steel mills products to nonintegrated pipe mills for their production of pipe."

Personally, if the steel mills are supplying all the pipe that the pipe mills can use to keep them operating at capacity, I see no reason why the industry should not be willing to enter into a voluntary agreement to do that.

And if, as we hear rumors, which we have verified, they are not supplying the pipe mills with enough plates to keep the pipe mills operating at capacity, then Commerce, or someone, should put additional pressure on the steel industry to enter into a voluntary agreement to do it, and then to do it.

We intend to keep suggesting to Commerce that they do



follow through on that and either get a voluntary agreement or assure themselves positively that that plate is being furnished to keep the pipe mills operating at capacity.

Then there is the second suggestion about what happens to the pipe after it is made. We in the Oil and Gas Division have been impressed by Russell Brown's suggestion, the IPAA suggestion that the steel industry should deliver pipe only on certification of immediate use, meaning by immediate within a reasonably short time.

We think that in itself would at least greatly circumscribe the getting of this pipe into gray and black and other colored markets. If pipe was going to be delivered only to people who certified that they had a need for it, after all, when you get to the suppliers level, he knows pretty well whether that certification is a correct one, or not. It does not require policing, as I see it. All it requires is a certification to the supply house when the pipe is bought that it is going to be used.

That means that it is not in one case going to be laid in long-term inventory, or in the other case, that it is not going to be turned over to somebody, some intermediary, some broker, who will proceed to peddle it around and get the highest price he can get for it.

Now, I say that we in Oil and Gas Division have been impressed with that. So have Mr. Hahn and Mr. Bowman, and they

have pressed the steel companies to adopt some such certification plan.

At last count, the steel industry had given that a complete brush off, saying they were not going to police what happens.

But I happen to know that neither Mr. Hahn nor Mr. Bowman is satisfied with that, and they are keeping at it. I hope they come up with something on it and get something out of the steel industry on it.

Mr. Hill. Mr. Chairman, as I understand it, that letter that said the steel industry would furnish all of the plates necessary for the rolling mills of the line pipe manufacturers--

Mr. Ball. That is both.

Mr. Hill. Both tubular goods and line pipe?

Mr. Ball. Yes.

Mr. Hill. Well, I think it is a matter of notorious common public knowledge that in connection with one of our great pipe line systems they went out and bought the ingots in order to get the commitment, to get the sheets with which the mills could roll the pipe and thereby get a preference.

I think any number of people are gathering scrap and shipping to get some sort of credit.

Mr. Ball. Preferred position.

Mr. Hill. -- on the allocation of tubular goods. So it seems to me that the Department of Commerce, if they knew of

these facts, would not feel that they were entitled to make the assertion contained in the Secretary's letter.

Mr. Ball. Now, George, if you have in mind the same pipe line system that I have, which is the former client of mine, in order to get the pipe rolled, A. O. Smith, the biggest mill in the country for large diameter pipe, was only running two shifts.

The Michigan-Wisconsin Pipe Line Company made a trade with a steel company to get billets, and then they found a sleeper mill that could roll that into plate. So they got their billets in Detroit, they shipped their plate to Granite City, Illinois, and got the billets rolled into plate, and then they shipped the plate up to A. O. Smith, and then A. O. Smith puts on a third shift and makes pipe.

However, that deal was made some months ago.

I do not have any such tangible evidence as that of things going on now, but we do have rumors, and those rumors both Commerce and we are trying to check up on to see whether the pipe mills are actually being furnished plate to keep them operating at capacity as of now.

We know they were not some months ago. We don't know as to now.

Mr. Hill. The company I was talking about was not the Michigan-Wisconsin Pipe Line. There was another one, a much larger one.

Mr. Russell Brown. I think we should pass on the question. I hope you will not pass on it on the tone that Barney left here. Barney's ability is so good that he over-persuades a lot of people.

There was nothing said to asking them to make an agreement on the price. Barney put the price in their mouth, which left a bad taste. There was nothing said about price.

Mr. Majewski. If you were not talking about price, I will withdraw what I said.

Mr. Russell Brown. I never mentioned price.

Another thing, I certainly don't think a council of this size ought to say to the steel industry that we are so guilty ourselves that we are afraid to ask them anything.

The Chairman. The question is upon the adoption of the report.

All in favor will indicate by saying aye.

(General response, aye).

The Chairman. Contrary, no?

(No response)

The Chairman. The report is unanimously adopted.

Dr. Wilson, we will ask you to at this time represent the progress of the Voluntary Petroleum Allocation Agreements Committee.

Mr. Wilson. Mr. Chairman, my committee made its report at the last council meeting and it was understood that after

approval of our report by the council it went to another committee appointed by the Secretary.

The report simply outlined a method of voluntary agreement, which we thought was as far as the industry was willing to and which we were willing to do if in view of the government's desire for it, and the desire of many state officials for it, that would be justified.

The committee appointed by the secretary included a good many members of our committee. Mr. Burt Graves was elected chairman of that committee. That committee, in turn, appointed a drafting committee to put that into language, with representatives of the Oil and Gas Division and the Department of Justice.

My own committee has had nothing further to do with it and presumably will not until it comes back with the approval. Then if the council wants us to undertake to implement it with district committees and so forth, we can do so.

The Chairman. Mr. Hochuli, as chairman of the drafting committee, we would like very much to have you bring us up to the present, if you will.

Mr. Hochuli. Mr. Chairman, after Mr. Wilson's committee passed it to this committee appointed by Captain Crew, we had a meeting on May 5 and discussed it, trying to get it in some kind of shape to present.

It was passed then to a special drafting committee, the

so-called Crew committee, now headed by Mr. Graves, and that approved the recommendations of the Wilson committee with only one dissenting vote.

The drafting committee then went to work to put it into shape for an agreement that would meet with the approval of the Department of the Interior and Department of Justice.

There were eleven men on that committee and we worked to get it in shape, during which time we had the help and advice of Mr. Friedman of the Oil and Gas Division.

Although we had no one from the Department of Justice with us, we did confer with them at various times so that we would be sure not to be running up against something that might meet with our total disapproval in the manner in which we presented it, not in what we said or what we wanted.

After we drew this agreement up and presented it to all members of our drafting committee, the vote was unanimously in favor of it. It was then submitted to Mr. Grave's committee and approved by them with only two dissenting votes. It was then presented to the Department of the Interior, and on June 18 a public hearing was held in this room, at which there were in attendance some one hundred people.

The plan was considered for almost a full day and then the Department of Interior took the plan as submitted by the committee, together with the comments and recommendations made at the hearing, and on July 9 presented it to the Department of

Justice in substantially the same shape as it was prepared by the drafting committee which undertook the job of putting it in the shape in which this committee had approved it.

The Department of Justice has had it since that time and have promised an answer momentarily. They told us this morning we might have it before the day is over. We are advised under unofficial advice that it probably will come back from the Department of Justice substantially as it was recommended by our committee.

There will be a few changes in wording, I believe, for purposes of clarification only. But we know of no substantial changes that will be made.

We have the full cooperation of Department of Interior and some people from the Justice Department. When it was sent to the Interior Department and then to the Justice Department there were only two dissenting votes in the industry, and we are advised that those people are still working against us over in the Justice Department.

So we have reason to believe that it will come back sometime soon in about the shape that we presented it, which, as I say, some changes only for clarification purposes.

We don't believe there is any great pressing need for it at the present time. We don't need that plan today or tomorrow, but we would like to get it so that it will be available to us when the need arises.

As you know from the earlier presentation, the plan is substantially the same plan as we functioned under last year and which everyone seems to think will do this coming year if we have need for it. We hope we won't have need for it, but if we do we would like to have the plan so we can go right to work.

I think we are safe in assuming that within the next few days, perhaps a week or ten days at the most, we will have a reply from the Department of Justice.

The Chairman. Thank you very much.

Mr. Friedman, the Assistant Director of the Oil and Gas Division.

Mr. Ball. Apparently Mr. Friedman is not here right now, and in his absence I will just supplement very briefly what Walter has said.

The thing is in the hands of the Department of Justice. We have one of those bad breaks that you sometimes have.

John Sennet, who had been Assistant Attorney General in charge of the Antitrust Division for a long time, and who had gone through the last winter's consideration of the temporary plan, was thoroughly familiar with the whole thing. He had been in on the formulation of the procedures under this Public Law 395, not only for this, but also for all the other agreements.

He resigned at just the wrong time, just when this thing



was ready for Department of Justice consideration.

Mr. Sennet left, and with him left his assistant, John Hill, who some of you will remember as having met with us and having participated in discussions of this council. The upshot of that was that a new Assistant Attorney General had to be appointed to whom this whole thing was new and strange, and a new assistant to him, Riggs McConnell, a new assistant to the Attorney General to Mr. Burgeson, and a new assistant to Mr. McConnell.

They came in and the whole educating process had to be gone through again.

Unfortunately, we tried to get this thing through, and Riggs McConnell and Watson Snyder did their best to get it through for us so that we would have action in time to present to this meeting today. But, unfortunately, Mr. Burgeson had been away for several days in Boston and he did not get back until last night. He did not want anything done without him so there the thing stands. They said they would try to get it over to us before the day is over, or, at least, get a report on what they planned to do before the day is over.

There are a couple of hours yet to go and maybe we will get it.

The Chairman. As Dr. Wilson has indicated, this agreement has been worked out within the recommendations embraced in the Wilson report which was adopted at the last meeting of

the council. This is a processing of that recommendation, so I take it that there is no action, so far as the council is concerned, that should be taken at this time. We are merely waiting for the governmental processes to complete the approval of the voluntary allocation agreement as approved by that committee and by the council.

Is there any other discussion in connection with this matter?

Mr. Duke. What I would like to add, Mr. Chairman, is that if they are going to bring back the few changes that we presume to be made by the Department of Justice, to whom will they make those changes known?

The Chairman. Back to the Secretary of the Interior, I assume.

Mr. Duke. Will you send that back to the council?

Mr. Ball. No, it need not go back to the council. If the changes are purely of an ineffectual nature I don't think there will be any necessity of reference to anybody. But if there is any change of substantive nature at all, then it will have to go back to the Graves committee, the Oil Industry Advisory Committee created under the Act.

So far as discussions have gone, there is nothing of such a substantive nature as will require reference back either to the Wilson committee or this council.

Mr. Peck. Mr. Chairman?

The Chairman. Mr. Peck.

Mr. Peck. I have listened with a great deal of interest here today both to the reports of the military, the Navy, and so forth, and others, and there has been a further interest to listen to the problems of the production end of the industry in a manner in getting steel.

In their suggested requirements of the steel industry to see that they get their fair share of the steel, and to see that it gets into the right hands, if the same sincerity of purpose is shown in drawing an allocation agreement to protect those to whom our supply would be diverted in the event of a shortage, then I am sure there will be no trouble within the industry from the retail level to getting their approval of the agreement.

Thank you, gentlemen.

The Chairman. The Oil and Gas Division at our last meeting requested that the committee on petroleum production and crude availability should write a report up to the present from the report that was submitted a year ago. I appointed Major Hardey as the chairman of that committee, and he is unable to be here today.

In his absence, the report of the committee on petroleum production and crude availability will be presented by Mr. Jim Brown.

Mr. Jim Brown. The report is made up with the full sub-

committee reports from each of the different districts.

In summarizing these reports, and the estimates that these committees have made with regard to present production and availability over the next year, we find that they expect to attain an average daily production by the middle of 1949 totaling 5,700,000 barrels a day.

Going back to the last report, the committee in its report showed an actual production at that time -- that was just about a year ago -- indicating an average of about 5,100,000 barrels daily as actual daily production at that time. They estimated on the basis of information they had then that the availability of this industry was 5,271,000 barrels daily, only about 170,000 barrels daily cushion -- as I have heard the word today.

However, the experience has been that in the first quarter of 1948, using Bureau of Mines figures, actual production in that quarter was 5,347,000 barrels a day, over 76,000 barrels a day greater than this committee estimated was available when they wrote the report a year ago.

Looking again at Bureau of Mines figures, for the second quarter of this year, which is only a preliminary figure as of the present time, the daily production is 5,500,000.

Going into this committee's estimate as to future ability or availability, it is running from 5,567,000 estimated in the third quarter of this year on up to 5,700,000 barrels a

day at the end of the second half of next year.

Now, the subcommittee reports go into some detail as to how each subcommittee made its estimate. Briefly reviewing District I, they tell us that the producing fields in that area will just about offset the natural decline, looking at the year ahead of us, and that at present all fields are up to their maximum efficient grade.

In District 2, the story is somewhat the same, although they anticipate an increased production in the second quarter of the next year. In District 2, they find that all fields are now considered to be producing at the maximum efficient rate.

In District 3, no estimate appears to have been made as to what availability may be in order of new discoveries. Their estimate appears to deal with just what is expected from those fields now discovered and the probable development in those fields.

However, the committee does estimate increasing production throughout the period. There is a table in the report that shows the estimates of each district, and that is summarized in a total.

Again, in District 3 they indicate that the fields in that area are producing at or near their maximum efficient rate.

In District 4, they emphasize in their subcommittee report that there is no shortage of crude oil in that area and

that there is every indication that there will be a steady increase in daily production in that district throughout the next four quarters.

They show that there is some shutdown in production at the present time. I believe it is around thirty-eight thousand barrels a day.

They show that discoveries indicate considerably more oil in sight in that area.

In District 5, that district did give some estimate as to what the probable availability might be from discoveries. In that connection they assume that new discoveries will account for an availability of 475 barrels daily in the first month of this particular year under study, and attain a volume of around twelve thousand a day by the end of the twelve-month period.

I doubt that you want me to read the full report.

Following the suggestions of Mr. Hardey, we have brought into the summary a few things that may have some interest, showing how we have been going and what may happen in the future.

There are 570 more wildcat wells completed since the first of the year; that is January 1 to July 17.

There were that many more completed than were completed in the same period last year. That is up twenty-two percent on wildcats.

On developing wells we are up eighteen percent, and have sixteen percent more rigs in operation.

We drilled around sixty-five million feet of hole so far this year.

If we relate that drilling to the production, it means that sixty feet of hole had been drilled to every thousand barrels produced so far this year.

Mr. Barton. Does that sixty feet relate to current production?

Mr. Jim Brown. That is sixty feet per thousand of current production.

I have been reading into some basis<sup>of</sup>/figuring, I believe, that may have been used by the steel committee also.

On that reasoning, through 1936 - 1939, the average footage drilled per thousand barrels of crude oil production was about seventy-five feet. So the drilling this year and last year also, in 1947, is running about eighty percent of the average footage in relation to production, that production that prevailed in 1936 - 1939.

That might be controversial, but it is passed out for an indication that although we are hitting peaks in drilling, the indications are that it is still far from being enough.

I think that touches the highlights of the report.

The Chairman. Are there any questions, gentlemen, in connection with this report?

Mr. Skelly. I would like to ask a question.

Do you mean that for every sixty feet that has been drilled you have increased the current production a thousand barrels a day?

Mr. Jim Brown. No. It is for every thousand barrels that is being produced only sixty feet of hold has been drilled. We are thinking of replacements.

In other words, we are thinking of the necessary activity to keep up your production, or increase your production. We have a far greater production today than we did a year ago when the committee reported some four hundred thousand barrels a day.

You have nearly 1,600,000, I believe, greater in daily production than we had at the beginning of the war.

So what was enough drilling in 1936 - 1939 would be no where near enough today. We are trying to shew that the activities of the industry must still be increased to keep up with the increasing production.

Mr. Hill. I move the adoption of the report.

A Voice. I second the motion.

The Chairman. You have heard the motion in favor of adopting the report.

All in favor will please say aye.

(General response aye)

The Chairman. Opposed, no?



(No response)

The Chairman. The report is unanimously adopted.

The Chair now recognizes Mr. George A. Hill to present a report of the Agenda Committee.

Mr. Hill. Mr. Chairman, I will simplify this report by not reading it.

Two matters were submitted which the Agenda Committee recommends shall be adopted.

The first was the appointment of a temporary committee to restudy and reexamine the whole National Oil Policy Report of the Petroleum Industry War Council and to see to what extent it should be revised in our subcommittee.

The Agenda Committee recommends the approval of the appointment of that committee.

The second request was that a committee be appointed to study and estimate and report on the present manpower engaged in the industry, classified in functional divisions: industry, occupation, and skill, geographic areas, desirable and practical classifications to be determined in consultation by the committee with representatives of the National Security Resources Board, the Armed Services, the Petroleum Board, and the Oil and Gas Division, and other appropriate government agencies, and to study and report on the adequacy of currently available employment data for the functional division of the domestic petroleum industry. To recommend ways and means of overcoming such deficiencies as may appear to exist.

On the second subject, the Agenda Committee recommends the appointment of that committee.

In that connection, I wish to call attention to the fact that the Manpower Committee of the PIWC did a stupenduous job in each one of the five PAW districts. They made the specific job classifications and prepared data of immense importance that could be and should be brought down to date for available use to the Resources Board, the Army and Navy Petroleum Board, and other interested agencies.

The Chairman. That was Mr. Lovejoy's committee?

Mr. Hill. Yes, sir.

✓ The Chairman. You have heard the report of the chairman of the Agenda Committee. *(See Nat Oil Policy Comm.)*

Mr. Barten. I move its adoption.

Mr. Peck. I would like to speak on it.

The Chairman. All right, Mr. Peck.

Mr. Peck. I read about this report and I had several inquiries from dealers regarding dealer representation in the National Congress of Petroleum Retailers.

The dealer delegates met from all sections of the country and they discussed the problems which the dealers had during the last war. There were many of them that felt that there were unreasonable disadvantages to the dealer.

Now, the dealers, of course, do not claim that they were any more patriotic in the last war than the soldiers that

fought over in Europe and so forth, but they did feel that there were regulations, not too many that were bad, but those that were written improperly were very bad.

Objections in Washington here at that time brought the statements from the officials that it was unfortunate that the dealers did not have a national organization to meet such an emergency.

That was probably among the greatest reasons why the National Congress was formed.

At that time they presented a resolution which was unanimously adopted, to provide for, substantially, dealer representatives on every committee in the United States that has to do with the promulgation of rules and regulations that affect the dealers in their operations.

It should be easily understood why that request was made. That was a very reasonable request.

There is considerable concern since this talk of war that there may be some plan that the dealers may help improve a little, especially from their standpoint, inasmuch as they are the ones that are going to be rationed and their profits are going to be cut, that they have their representatives participate in the promulgation of these rules.

I believe that any attempt to complete any regulations that affect the dealers, without their participation to see that their objectives are heard, may end up in improperly

written regulations and rules and will meet continued objection of a great majority of the dealers throughout the country.

I would suggest to the Oil and Gas Division and the chairman of your committees to avoid a very bitter feeling later on by considering the dealers of the nation in the promulgation of these rules.

Thank you.

The Chairman. The question is on the motion of Colonel Barton for the approval of the Agenda Committee report.

All in favor will indicate by saying aye.

(General response aye).

The Chairman. Opposed, no?

(No response)

The Chairman. It is so ordered.

Included in this report which was adopted was an authorization of an emergency provision in our by-laws for the appointment of a committee to formulate a national oil policy. After consultation with the Director of the Oil and Gas Division, the chairman announced the appointment of a committee and designated Mr. Jacobsen as chairman. That committee had its first meeting in the offices of the National Petroleum Council yesterday, and I have been greatly encouraged at the reception that has been given the suggestion and the importance of this undertaking, and I think it would be

interesting to the council to have Mr. Jacobsen indicate the course that he has followed and the objectives which they have in mind in connection with the assignment which has been given them.

Mr. Jacobsen. Gentlemen, there really is not very much to tell.

As you know, the committee was appointed only a few days ago. We held our first meeting yesterday.

The charge we were given was to restudy and review or supplement -- "supplement" was the word used -- the National Oil and Gas Policy that was adopted by the Petroleum Industry during the war, by the Petroleum Industry War Council.

At our meeting yesterday we discussed in a general way the principles which, I am sure, we would all like to underlie the national policy.

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There were such things of paramount necessity of keeping the industry in private hands and of giving every possible encouragement in the exploration and development of our domestic resources. Questions of conservation and things of that sort I am referring to. We obviously could not bring forth at one committee meeting a full report for this Council and likewise it is obviously cumbersome to have 25 or 26 persons scattered all over the country because the committee appointed gives representation both to the various branches of the industry and geographic distributions as well.

Mr. Wilson: Is there anybody from Texas on it?

Mr. Jacobsen: No.

So what we did yesterday was to agree on the appointment of a small drafting committee which will immediately take in hand the job of preparing a report as promptly as possible and submit it to the full committee on National Oil Policy and after that committee has passed on it, then the report will be submitted to this Council for approval or rejection or amendment as the case may be.

That is about all there is that I have to say.

Mr. Peck: Our experience with drafting committees was that we were not represented and that has not been satisfactory. I believe if an effort were made in good faith it would save a lot of trouble. I am just speaking

of a reasonable effort. I did not find anybody who wanted to be unreasonable. There were a few exceptions though, but the majority of dealers of the nation just wanted a reasonably fair deal. They simply do not want the Government to put directives out.

I believe that if the feeling that I believe exists -- can be overcome if we talk about it today. A lot of trouble could be avoided.

It is true that there were only two votes against this report. That is simply because the representation on this Council is very skimpy, but it must be realized that there are good many thousands of people who are citizens of this country who feel these rules are being promulgated and they would like to feel their interests are being protected. I do not think that the fact that we have just been given a rather skimpy representation should be counted. Our votes should be counted in detail. I do not mean just a vote in another company because if you want to put it on a company basis, there are tens of thousands of companies represented.

I may tell you all of the discussions and demands which we have had here are not demands of minority representatives of the Council. They are demands that have been put into resolution form to provide for such things as this: From a business standpoint, from a standpoint of goodwill, I do not see how the industry can overlook the opportunity to

make it appear that they are trying to do the best things under the circumstances to treat the dealers fairly. I do not think that any indication has been given so far, but I believe that it would be profitable in every way to start on that basis.

Mr. Jacobsen: May I say a word here?

The Chairman: Mr. Jacobsen, I feel that Mr. Peck's remarks really call for some statement from the Chair. The impression must be created from what Mr. Peck has stated that the dealers have not been given representation in the appointment of this committee. Now the Chair gave very careful consideration and had the advice of the directors of the Oil and Gas Division and the appointment of this committee. The committee is composed of 25 members and of that membership, two are the official representatives on this Council of the dealers.

Mr. Dressler and Mr. Gwaltney who are members here, as representatives of the organizations of the dealers. They sit here as senior members of the Council and certainly they would be entitled to priority with respect to appointment and I feel that Mr. Peck is without justification in an attempt to create the impression to the effect that there has been purposeful discrimination against dealers in the appointment of this committee.

Certainly they have their spokesmen who are able and



worthy and I feel that the committee represents a very fine and a very fair and independent cross section of the whole American petroleum industry.

Mr. Jacobsen: I would like to say this, that Mr. Peck mentioned the writing of rules and regulations. We are not going to write any rules. We have no power. We were asked to restudy and supplement an earlier document and that document contained only the expression of the Petroleum Industry War Council as to what that Council of our national oil policy should be.

There are no rules and regulations in it. It is certainly not my idea that any rules which we may bring forth will have any effect of any kind. Furthermore, I come back to the point that we were asked to restudy and supplement an earlier document. That document limited itself to the dealing with bald principles. It did not go into details of marketing at all. It did not say anything about the margins which should be in any place or how marketing should be dealt with at all. I do not know that would be the proper thing for a document, expressing fundamental principles of an oil policy, to go into details regarding marketing arrangements.

Mr. Peck: I would like to answer the two propositions.

In the first place, it would be a fact that the minutes of these meetings were passed out to the National Congress

of Petroleum Retailers and the fact that we covered all sections is widely known, but they did not recognize them and that would certainly indicate an attempt to evade them. They are the largest body by far. Their membership has been published and the minutes furnished to all departments of the Government and various people in the oil business. ✓ The meetings were openly attended by the president and the president wrote the representation in all of the petroleum industry journals. The retailer representatives claim to represent certain dealers in the East, four different organizations, and I believe the record will show they have nine organizations in the East with a total of 38 throughout the United States.

I believe there was considerable discussion in this resolution as I recall. This is the second portion of this and I wish to give it to you. It mentioned the promulgation of rules. Promulgation of rules does not necessarily constitute the drafting of rules. The important part of it is simply this: It is some plan to affect the industry and we are not interested in anything that does not affect the dealers. We do not interfere with anything else. As a matter of fact, in all of our testimony we have asked that the steel industry get all the steel it needs. We are only interested in things that affect the retailer, where his pocketbook or his property is in jeopardy. That is the

only part of any drafting arrangement that we have sufficient knowledge about to discuss. If, as these gentlemen indicate that war may start tomorrow like the last war did, this promulgation of rules will affect the majority of dealers throughout the nation who were not represented. That could have easily been avoided.

I believe the statement and the minutes are available to everybody in the oil business. The whole meeting was published. We will give the information to anyone who wants to look and anyone who represents the dealers of the nation and the vast majority of them. I believe you will agree that the resolution is so carefully thought out and so carefully worded that they would not be left high and dry.

I am certain that trouble will ensue in the minds of the retailers throughout the country if this fair representation for which they had pleaded is not allowed.

Mr. Majewski: I can not sit here and have Mr. Peck claim to be the representative of the world. I want to correct one impression. Parks Gwaltney is representing the needs of the National Council of Petroleum Jobbers Associations and is not a dealer. He hasn't any dealers. What Mr. Peck is saying to you is that you will be tainted with a little black tar if you do not put him on every committee. He has appointed himself the representative of the dealers of the country and I wish to object to that.

He represents no dealer of mine. He is putting it on a personal basis and I will reply the same way.

I represent my dealers and he does not. Now frankly, if we are going to have this issue come up at every meeting about Mr. Peck having to represent the retailer some of us are going to get terribly fed up. My kind of people are not specifically represented on Mr. Jacobsen's National Oil Policy Committee, but I will know that what will come out of that committee will be a fine document for all branches of the oil industry -- major, minor, and irrespective of what function.

Mr. Jacobsen: You will have your chance to talk about it right here.

Mr. Majewski: I have seen this committee, the National Oil Policy Committee, perform and I do not think Rankin Peck would help it one bit if he were to be there. I am going to call a spade a spade here. I have seen our people work. He continually says in this Council today that the dealer was maligned and hurt during the war. There was no such thing which happened. The dealer was dealt with fairly by representatives of all branches of the oil industry and only in Mr. Peck's mind does the dealer become hurt because he does not represent him.

I am not going to sit here and listen to Mr. Peck at each meeting and have him get up and say that he is going

to have to be a representative on every committee down to the local district or else there is going to be an evasiveness. I think we might better go to the race track, the ball game, or some place else if we have to put up with that. I want to serve notice on you now, Mr. Peck, that you represent no dealer of mine or no jobber of mine.

Mr. Peck: How would you know that?

Mr. Majewski: You are building a record and I am too faxy for you to sit here and let you build that record to take to the Department of Justice, and you can not do that with me, buddy. You have got to come clean with open hands like I am. I challenge you to make that record stick that the dealer had been hurt in any respect by any action of this Council <sup>of</sup> the Petroleum Industry War Council.

(Applause.)

Mr. Peck: Mr. Chairman, I will be glad to accept that challenge.

In the first place, what I am thinking and what I am going to do is obviously very presumptuous, or it would be presumptuous if I said what you were going to do. That part of it is easily covered. During the last war there were certain regulations that were unfair to the dealer. I will merely cite one of them.

The Chairman: The Chair will have to hold that those remarks are entirely out of order and have no place in this

discussion, Mr. Peck.

Mr. Peck: I was trying to give the proof.

The Chairman: The Chair permitted Mr. Majewski to go too far afield, and now the war is over.

This is the National Petroleum Council and this is no forum for any discussion as to what took place with respect to the treatment of the dealers in the last war, so I shall have to rule that your remarks in relation thereto are entirely out of order.

Mr. Peck: I merely used that in my first remarks as a request of the dealers to have representation on these rules that are being written that affect them and it may be that this record will be absolutely fair. I can not presume what is going to be done. I have never seen it, but it would certainly do considerable to alleviate suspicion if it was drafted and reported to the retailers. Certainly that part would affect them.

Mr. Hill: Did you ever read the National Oil Policy Report to the Petroleum Industry War Council?

Mr. Peck: I believe I have.

Mr. Hill: It was adopted by practically every association in America of any consequence.

It represented a unity under stress of war of oil people in every range in every category of the business to assist the Government in time of war.

Mr. Peck: I think it did a very fine job.

Mr. Hill: I just think if you had read it and had found any reference either remotely or by implication to a dealer on any aspect of it that reflected upon the opportunities or any rule or regulation involved in it, it certainly would have lodged itself in your memory as it would have the members of the drafting committee.

I would now like to have you tell, for the purposes of the record and for the benefit of the committee in its study, any paragraph, any word, any sentence, or subject matter that you found to be objectionable so I would have the benefit of that advice and give full faith and credit to the sincerity of your observations.

So I personally request you germanely to the subject under discussion to now state what you, if you did read it and you think you did, found objectionable.

Mr. Peck: Do you recall when that report was given?

Mr. Hill: Yes, very well. I worked on it for months.

Mr. Peck: When was it?

Mr. Hill: During the war.

Mr. Peck: Do you remember the month or the date?

Mr. Hill: I have a copy of it here.

Mr. Peck: Do you remember the month? You are testing my memory so I will test yours. If you do not remember the date, how do you expect me to remember the material contained

in it?

I did say that I thought the Petroleum Industry War Council did a very good job. I was willing to accept the challenge by just stating the particular thing that was unfair.

Mr. Hill: I want to be fair with you, Mr. Peck. I would like to have you send to me your ideas when you are not too busy. I do not want to put you on the spot. I would like you to send to me your ideas after you have reread it and it is fresh in your memory what you recalled to be objectionable in it.

Mr. Peck: I do not recall anything objectionable. If you will send me the report, I will be glad to read it and maybe I will send back my blessings.

Mr. Hill: I think we would save a lot of time by that.

Mr. Peck: This particular objection, that we objected to, the allocation, could have been avoided.

Mr. Hill: We are not talking about that.

Mr. Peck: This is a new thing and we like to help it, but I feel that such a large number of persons, I feel that they are involved in this and they ask to have representation on the part that affects them, and that is just what you people have been asking, or just the type of agreement you people have been asking from the steel industry.

I was a little amazed to know how there was alertness in the industry in getting steel to set up something that



would be fair.

All that we suggest is that you include in that something that you are giving to the dealer. Just something that is fair and equitable. That is all we want.

The Chairman: The next matter of business is the report of the Committee on Petroleum Storage Capacity. Mr. Wescoat will present that.

Mr. Wescoat: Mr. Chairman, this must necessarily be an interim report. All of the questionnaires were sent out about six weeks ago to those companies who were to furnish the information. About half of them have been received and those which have not been received are divided percentage-wise between both the large and the small companies.

Those inquiries were directed to the same people who normally furnish that type of information to the Bureau of Mines.

A follow-up letter has gone out to those same people. I am taking the liberty of writing to some of them personally to request that they expedite this. I am hopeful that it can be received by the next meeting.

It is a tremendous compilation of figures. We will have it done by the International Business Machines Company and it will take two weeks after they have gotten all of the information for them to complete the tabulation and get it in shape. I hope we can have it ready October 14 or next May

if you decide to further the meeting in the interest of Mr. Ball's continuing in his job.

The Chairman: You have heard Mr. Wescoat's interim report and we will look forward to a report at a later meeting of the Council.

Gentlemen, we have in attendance at the session this afternoon a representative of the Economic Cooperation Administration, Mr. Walter Levy, Director of Petroleum. I should like to ask Mr. Ball to present Mr. Levy and indicate the scope of his interest in the Council.

Mr. Ball: Mr. Walter Levy does not need an introduction to many of you, but he may to some of you other people.

Mr. Levy was with the Office of Strategic Services during the war and then he was with the State Department after the war and in the State Department he fell heir to one of the toughest jobs that I know of, namely the screening of the petroleum requirements prepared by the Paris Conference for the countries that we now know as the ECA countries, the 16 countries to be benefited by the Marshall Plan. As you know, those requirements were hastily put together in Paris. The job was done in 10 days. I have always thought it was surprising that representatives of 16 countries and occupied Germany could get together and in so short a time and even with oil company help, could prepare any kind of a statement of requirements. It is inevitable under those

circumstances, however, that their estimate of requirements would be somewhat astronomical, more so than they were. Those which came over here were laid before our inter-departmental petroleum committee. It happened to be a time when we in the oil and gas division were just buried in work and after being discussed a little while the job of screening those requirements and getting them down to a realistic basis fell on a man then in the State Department, Mr. Walter Levy. I am here to tell you that he did a grand job. It just happens that with his background he knew a lot about Europe. I heard him tell the Appropriations Committee over here just why they wear wooden shoes in Holland instead of leather ones and why they needed additional petroleum in certain countries in Europe and why petroleum requirements in other countries in Europe were cut down to details as to why.

He did a grand job with these requirements. They were screened down completely to a realistic basis representing the minimum requirements of the European countries.

As we all sometimes do things, his hitch in Government service, he resigned and took a job with a little outfit known as Sasony Vacuum Oil Company. He had n't any more than got his chair warmed up there and the brilliant prospect ahead of him when Mr. Paul Hoffman, the head of ECA, reached out

out and almost literally took him by the collar and brought him back here almost against his will. He has on his hands at this immediate moment a very desperate problem because his problem is his own. It can't wait. We have staffing problems at the Oil and Gas Division that I would like to talk to you about and I am going to talk to Walter, but we can fool along with them for a matter of weeks looking for the man we want and need.

Walter has it on him right now. He wants a chance to talk to you about it and I think it is well worth your while to listen in the interests of the industry. Mr. Levy, will you please come forward?

Mr. Levy: Mr. Chairman and gentlemen, I would like to give you some facts, but before I go into any of those I want to say that our most pressing problems which we have to solve right now, not tomorrow or the next day, are many. I also would like to describe to you in particular how ECA is going to operate and how ECA is going to affect the oil operations over here and can in ECA countries and outside ECA countries in other areas either producing or consuming areas, have an effect.

I think it might be a useful idea to describe how ECA is set up. It is organized and petroleum fits into the whole over-all ECA program. You know that ECA came into being on October 3, 1948 and that for the first year of

operation about \$5,000,000,000 have been submitted by the American people in one of the most generous and most unselfish moves to stem the tide of Communism in Europe and to create economic recovery so that these countries will be, we hope, in due course self-sufficient and not be dependent any more on our help and on our assistance.

How necessary ECA is, gentlemen, is scarcely possible to describe. I would not have believed it myself, though I have been working on international problems in the State Department and I have been working on international problems in the Socony Vacuum Company, but we are faced now with a situation where countries in eastern Europe come to us and tell us, "If you do not give us dollars today, we will not be able to pay for your commitments, not next week, not next two weeks, but tomorrow. Tankers come here to load oil for certain countries and we get night calls. You have to give us the dollars or we can not load. We have to send the tankers back. We have to shut refineries. We have to close down."

The facts of such scarcity of foreign exchange is something which we fortunately do not know much about, but I would men for those countries which are dependent on supplies from the western hemisphere to state that it is a matter of life and death.

What is ECA trying to do? ECA, and I think that it

must be clearly understood, is basically an operation to cover the payment of deficits of certain western European countries who have agreed to collaborate with the United States in their dealings with western hemisphere countries. It is basically an operation to cover the deficits in their foreign exchange. The help which they give is through grants, loan, and through technical and other assistance.

Of the \$5,000,000,000 which I mentioned before, about 20 per cent will be given in the form of a loan and about \$4,000,000,000 in the form of grants.

The grants will be given in the following manner: The countries present to us through their organization in Paris where they have established a so-called OEEC, a program of their import needs which in turn will be screened by our own representatives in Paris and then submitted to ECA for further screening and in particular for further checking with the supplies they want to have available.

In this total import program oil plays a surprisingly large roll. Of the total \$5,000,000,000 deficit which I mentioned before about \$1,000,000,000 is accounted for by oil products, oil transportation, and oil equipment. That means probably more than 20 per cent of the total money involved in some form or fashion will be related to our industry.

Now Mr. Ball mentioned before that the country had submitted a program to us indicating their needs and indicating the dollar help they would like to have from us. This program, as Mr. Ball mentioned, was a very ambitious one. If it had been approved without further screening, it would have led to an even greater shortage than we are facing right now and would have caused problems over here and in every country of the world. For that reason it was necessary to screen their requests down. Now we have just received their third quarter, the quarter for July 1, 1948 to September 30, 1948. Even here we find that the needs exceed availability by perhaps 20 or 30 per cent.

I would like to give you a few figures so that what I say becomes more meaningful to you. The original request which the countries put in amounted to about 1.2 million barrels a day. That request was screened down to about 900,000 to 950,000 barrels a day for the first year of recovery. That is not from the United States. That is a total import needs. Our job then was to find out how much of the 900,000 barrels or 950,000 barrels a day could come from their own sources so-called sterling sources and how much from dollar sources. The division was roughly 525,000 barrels from sterling sources and 425,000 barrels a day from dollar sources.

Dollar sources, gentlemen, does not mean supply from the United States. Dollar sources in this particular contention

means supplies for which dollars would have to be paid. As a matter of fact, we are under mandate from Congress and we take it very seriously to limit as far as we can shipments from the United States and not to burden our domestic economy further than necessary.

Of the 425,000 barrels a day which are to be obtained from dollar sources, about 95,000 barrels a day would come from the United States, including, of course, large quantities of the specialty products. The United States is the only effective source of supply. The rest would come from the other sources.

About 39 per cent we calculated have total supplies to Europe in 1948 which would come from Middle Eastern sources and this figure provided that the Middle East remains an area where we can operate and this was scheduled to go up to about 90 per cent in 1952; whereas, the supplies from the eastern hemisphere were scheduled to go down from about 61 per cent in 1948 to 20 per cent in 1952.

The share of the United States in the total eastern hemisphere supply was, of course, scheduled to go down even further. What is ECA doing? They are not a procurement agency. They do not procure oil. They do not export oil or import oil. We are just financing the dollar deficit of the various countries and in our particular field of petroleum we are going to finance a dollar deficit of the various



participating countries in so far as it is caused by shipments of dollar oil into the various countries. We do not reimburse a country if it could still pay. We are not going to reimburse this country on a quarterly basis and pay them the dollars they had to spend for the oil. We are going to issue letters of commitment to banks or to suppliers which will allow these banks or suppliers to issue letters of credit to the suppliers who finance shipments to ECA countries.

I want to make one further point. This is no present either. The local exchange which the importer pays for his shipment of oil from dollar sources has to be made. We do not give the importer a present.

Say an importer in France wants lubricants for \$20,000 from the United States. He has to pay the equivalent in French francs to an account which is under the joint control of ECA and the French Government and will be disposed of in accordance with certain rules and regulations. We make no presents to individual importers or to any business.

To carry out our commitment under ECA we have to establish each quarter, and obviously also for each year of the recovery period, a petroleum requirement program which must be in line with the real needs of the country. We must then estimate how much do they produce domestically for the various products that will change in line with the

estimation of refining capacity of the production, et cetera. We then have to estimate how much they can obtain from so-called sterling dollar sources.

I want to mention at this point it is one of the basic tenets of ECA that private channels of trade must be maintained and must be protected. We would, therefore, estimate the amount of dollar oil to be obtained through dollar companies. When we have done that, we have then to translate these quantities into values which situation offers a very tough problem of pricing -- off-shore prices, domestic prices, et cetera. I will say a little more about that problem a little later on.

When we have made these calculations, we established a quarterly program and informed the country that more or less was in that program work of a certain quantity and of a certain dollar value, it seemed to us that they could plan their own import program. In accordance with this program the countries will issue import licenses to their importers and we will then at the request of the various countries issue procurement authorizations which would allow the countries either to obtain the reimbursement or to pay through letters of credit. This is a rough outline of the procedure that we have to follow under the law.

X In the first quarter of our operation, to give you an indication, dollar oil to the tune of about \$106,000,000

was granted through normal private trade channels, or I should better say, was financed by EGA; and the oil was, of course, obtained through normal trade channels where such channels existed. In some areas they do not exist. The amount of oil was 300,000 barrels a day. In the next quarter the amount may go up to about 400,000 barrels a day and the value will be \$150,000,000 for the quarter. As you will realize from the information available to our Government, the personnel available to our Government, is limited and to undertake these calculations which I have indicated only one major phase of that is a job which would keep a statistical department of an oil industry busy for quite some time.

It is basically important for us as well as for you that we would not establish an unrealistic program. We should not allow the countries to buy oil in line with a program which can not be met which could create disturbances here and everywhere else. It could increase inflation and would create havoc to our sources of supply. Therefore, the establishment of a realistic program and the continued screening of requirements, the continued adoption of figures to new conditions, is very important. It may be heavy one day and it may be bad the next day. We do not know what happens in two weeks' time. The continued screening, checking, and examination of figures is

an essential part of our work.

In addition to that we have day-by-day problems of no minor order. We find, for instance, a refining capacity in country A. If ways and means in country A could be found, then they could supply country B in ECA territory. We find that import licenses in another country are discriminating against our own country. We find that the Marshall Plan dollars may or may not be used to establish markets for companies at the expense of our country without any real benefit for the recovery of these countries.

We find, for instance, the so-called famous section 202 in our Appropriation Act which imposes upon us the ruling that nowhere are supplies to be delivered to ECA countries at a price that would be higher than the supplies delivered from the United States.

There is a premium on tanker transportation. I do not want to go into the details of that. With the premium that has been enforced some time ago the 202 provision causes one headache after another. In addition to that we have the problem of pricing. We are responsible for the expenditure of the taxpayers' money which money has been granted by the United States Government to be spent as wisely as possible and as wisely as we know how.

I mentioned to you 20 per cent of the total money will go to the industry. Are we entitled, and I put this question

very frankly, to pay premiums for crused oil which a certain country can only obtain at a premium? Are we entitled to pay the higher price? Is that a correct expenditure of the taxpayers' money? What would happen, gentlemen, if tomorrow after we have granted a premium on crude oil the premium is incorporated in the price and a new set of premiums are built up on top of the new price? What would happen if we make it possible for a country to get 2,000 barrels of crude oil if it would be able to do that indirectly? ECA would contribute to a 50-cent rise in the crude oil price for 5.5 million barrels daily in the United States. You see the scope of the problem we are facing.

Another problem is this: What is a pricing which is a fair and an adequate one which ECA, and I want to be plain for the record, ECA has no other responsibility but to see that the United States taxpayers' money is spent as wisely as possible. We are no OPA. We are not interested in profits. It is not our business. We have the responsibility to spend the money wisely and, therefore, the question of oils is involved.

If, for instance, certain off-shore sources of supply are priced at a fancy price ECA, irrespective of profits, which are not our concern, is entitled to pay with your money and my money. This is a tough problem. These are problems with which we are faced day by day and on which we are

getting congressional inquiries every two hours.

Even if we are careful in our financing you are going to get under ECA somebody who wants to pay more. We can not do that. If we do not allow any premiums on crude oil, what happens? In the country concerned it turns around and uses our own dollars.

Every country has, in addition to ECA, some dollar income. They use their own dollars and that drives the price up and makes it impossible for a domestic refiner to obtain the crude oil going to France or to any of the countries. You see that these problems require careful handling, skillful handling. They must be handled in such a manner that nobody need be hurt. On the other hand, somebody is bound to get hurt and if somebody is bound to get hurt, we should be pretty sure there is no alternative but to do it in the manner as we have done it.

There is another phase of the ECA program that is with us. That is the equipment program. Various countries have put in requests for equipment in ECA countries to the tune of about half a billion dollars. In addition to the British-Dutch-French oil industry, which operates outside ECA, they have a request for about \$300,000,000 worth of equipment in the Middle Eastern countries and Western Hemisphere countries outside the United States. The requests are probably out of order, but I do not want to say much about that as far

as ECA countries are concerned. It is mostly needed to expand the refining capacity in those countries which is in line with the crude oil increase which we anticipate from the Middle East. Here is a problem which is again a terrific difficulty. We have to see to it that whatever the countries can supply themselves in the form of equipment is supplied by the countries and that they do not come to us because it is more convenient or because we provide the dollars, and ask us to ship equipment overseas. I think that is basic to our concept and we have to see to it that this problem be handled as carefully as we know how.

However, as you well know, there is equipment where we only have the technical know-how and where we only have the manufacturing capacity to use it. If we approve such equipment again we have the further obligation to see to it that our domestic industry is not seriously hurt by the shipments of equipment to participating countries. It would make very little sense to weaken our economy seriously in order to build up an economy over there, but on the other hand, somebody has to make that judgment.

I think I have described to you some of the scope of the ECA operations with which we are faced. As you realize, these are grave problems not only to Europe; they are grave to us and our industry. Whether we will succeed or not nobody knows. We certainly run great risks. I also believe

that we can only succeed if we have the cooperative support of the ECA countries as well as our industry to do the job with which we are charged to do.

I would like to add one personal remark.

Mr. Ball already anticipated this remark. At present I am sitting alone in my office. I have about 50 or 60 telephone calls a day and an average of three or four minutes apart. I have to be very impolite to finish them. It takes me six hours. I have to establish the program for 16 countries and 22 dependencies and I calculate about 240 calculations and I am a little slow on machines. I think I would be the highest paid calculating machine operator in the country.

Further, we have the day-by-day problems. I think \$20,000,000 are outstanding because certain regulations are in effect. This famous Section 202 can not<sup>be</sup> clarified. We have been asked by Congress to spend our money in a certain way and it is, it seems, very hard to make sense of that regulation in the light of our oil industry conditions. There is one problem after another and you can realize what a billion-dollar operation involves, especially if you have to stand up and be counted by watch-dog committees every two hours.

I need help very badly. I need qualified help badly. It does not do to send me a man to whom I have to tell what I



have to do. It does not do because I do not know myself what I have to do in many cases.

What can be done about it? I do not know. I am in a position where I have to act and I have to act fast, as Mr. Ball indicated to you. I can not wait much longer because things are moving. Things have to be done. It is the same when the war started and they had to be done then. There was an operation to be done and if you delay, what happens. Everything goes haywire. It has already to some extent.

I, myself, have resigned from Socony Vacuum and have given up all my private connections and at the request of Mr. Hoffman have agreed to do this job. There must be no private connection in this job. It would be suicidal to any man who had private connections. It would be bad for ECA and it would not be healthy for the industry. That means that whoever goes down has to give up whatever he has built up, to some extent at least. He may have built up something and in this job he would not be in a position to draw two salaries while he is working with us. I could not face a man squarely from whom I drew a salary and tell him that I had to decide his problems at the same time that I drew a salary from the competitors of his company.

I think in fairness to the man and to all of us that it is a condition which must be observed. It is very hard to

make any change except perhaps an individual case where no interests are involved and where the problem can be presented so clearly that no conflict of interests could possibly arise.

I have contacted quite a number of companies and I am sorry to say in one or two cases, and I want to be frank about this, that people told me, "Let me think about it one or two days and then I will call you." The companies ask, "What do we get out of it?" I tell them that they may not get anything out of it. I did not get the man in that case. Here I am and I shall be back at my office.

(Applause.)

Mr. Ball: I think you might tell us how much of a staff and what types of people you have in mind, Mr. Levy.

Mr. Levy: I think the job falls into three very distinct parts. The first part is a programming and screening job. It is a job where we have to screen the requirements from the various OEEC countries. It means first to bring them down into line and see what they really need and then look at what is available to meet the needs.

The Chairman: How do you find that out?

Mr. Levy: We force them, Mr. Chairman, to present us a statement on end uses. We have a historical background on end uses, and we would also force them to eliminate during this period of shortage. It is all very well to

have consumption of petroleum products for users which are not essential if the oil is available. Under present conditions it does not work out that way.

Secondly, there is a great tendency in Europe to convert from coal to oil, especially if he pays a bill.

Again that can not be done. We have to stop it. So we would get this kind of screening. We would then have to check availability and this is a tough problem. It is no statistical service available because after all we are only concerned with one certain type of oil moving in international trade. Two-thirds of the oil moves freely; one-third moves through ECA financing channels. We have to check what is available for that one-third of the total demand of oil moving in international trade.

The next problem is, and it is a complex one, how much of that one-third should be made available by the British oil industry. Another problem is where we have to take the whole British oil economy into consideration and then more or less in friendly discussion with the British determine you should or could or would, I do not know what the proper phrase is, and then apply that to the total requirements. Then we are left with the dollar oil supplies and we have to check our companies as we have done. "Can you make it available or can you not?" And the answer is probably "No." Then the whole program starts all over

again. It could very easily drive a man mad if he had to do it alone.

Once this is done, you have to calculate provided you get a figure for the total amount of dollar oil that is available. You have to calculate what is available because we are basically interested not in quantities but in values. That is the first job.

The second job is a job which takes care of the 50 to 60 telephone calls. To take care of the fraction. If a country runs out of money that another country wants to use. That in another country Marshall Plan dollars are used, could drive another American company out of business, maybe, maybe not. We have to check. We can not afford to leave that unchecked.

Another problem is to assist the industry in telling them what to do, tell the small exporter who is not familiar with the procedures which are very complex and difficult to understand. We tell him what to do to get a part of the Marshall Plan financing.

The third job is the equipment job. This job is a job where you would have to have a financing economist. He has to decide these various problems and projects to the tune of \$500,000,000 in ECA countries. What can the countries produce themselves? What can we produce and procure from here without harming our economy? What

liaison and what problems are raised through the Commerce Department? What value should be put on? It is a policy issue in the equipment field and it is terrific. Should we finance a British refinery in Venezuela? Should we give guarantees to another company which might be British owned but may be American owned and has a British registry? And you can be hung on more questions in that field than you have in your division.

These are three major problems.

Mr. Barton: In the petroleum industry, they must sever their connection. If men could be found or a man to help, what would a man who is capable of being an assistant to you, what sort of a compensation would he get?

Mr. Levy: That is not an unimportant question. I will have to give you a set answer. The compensation anchors between \$6,500 and \$8,500.

Mr. Barton: The man must sever connections and not be supported by his company in any manner.

Mr. Williams: There is no objection to taking a man retired and be on an annuity?

Mr. Levy: No, I think that would be going too far. The compensation is from \$6,200 to \$8,500 for the three jobs, and I will have my trouble with the Civil Service Commission.

Mr. Ball: You have charge of spending a billion

dollars in a year.

The Chairman: Mr. Levy, may I say to you that your statement to this Council has been most enlightening and informative and I am wondering if you have any objection, or if Mr. Ball has any objection to disclosure here today as to the operations of your department and if that disclosure could be made available from your statements so that in an effort to cooperate with you in getting men the story might be made available to those who are not here at this meeting? We know of this recovery plan in a very intangible way. It is a mythical thing to a lot of people and I think that your explanation of it has been <sup>here</sup> very enlightening and certainly you have aroused within all of us a great sympathy to give you every support, but would that be satisfactory?

Mr. Levy: If I have a chance to revise my statement.

The Chairman: I would hope that you could do that because you do not have much time between these telephone calls. We want to help you in every way we can.

Are there any questions of Mr. Levy?

Mr. E.C. Brown: I have a question. There is a whole lot of industry that is not on the coast. There is a whole lot of the oil industry that does not have any connection with exports. Do you literally mean that a man say from an

independent refinery in Montana who is willing to come down and help you must sever his connections with that company and have no support from the company while he is down here?

Mr. Levy: In a situation like that we may put him on as a consultant and that would be a temporary way out, but it would not be a solution to our permanent problem. Whoever takes a permanent job has to take the good things, and there are few good things, and they have to take the bad things, and there are many bad things.

Mr. E.C. Brown: On this consultant basis did you put it that way that it was to be temporary?

Mr. Levy: It is limited in time.

Mr. E.C. Brown: A month or a year?

Mr. Levy: I think the legal restriction is six months out of a year.

Mr. E.C. Brown: What is the per diem?

Mr. Levy: It could be up to \$38 or \$50. The Congress has decided to give ECA a particularly generous allowance for consultants, that is \$50 a day.

Mr. Ball: Are you circumscribed by all the rest of us that a man can not draw a salary for the Government --

Mr. Levy: Except for consultants.

Mr. Ball: So you are up against the same thing as OGD and everybody else is. The thing we could do in war-time and under the War Power Act in PAWC where a man drew

a salary but nevertheless drew some support either in the form of an advance payment or a continuing salary from his company, is absolutely illegal now. So that is something that these of you were thinking in wartime just have to forget about.

Mr. Levy: I would like to add something.

We were supposed to be exempt from Civil Service regulations as far as I know, somewhere a paragraph slipped in and nobody knew where and how, but it is in there now.

The Chairman: Do you speak of a permanent job?

Mr. Levy: Permanent in a Washington sense.

The Chairman: Are there any other questions?

Mr. Ball: I would like to ask you this, Walter.

You have a committee on which you have been good enough to act as chairman yourself. You have been on Manpower for PAW all the way from Director on down and I have been calling on you for assistance in getting a staff for OGD. I think it is one of the services that OGD and the industry can render to the Government and incidentally, it is because it is very distinct as to the industry's interests to have a competent staff on the Government agencies which have to do with oil and gas. I can not think of anything that is more important in industry than that. We have requests from Commerce and State and most acute of all of these requests is the request of Walter Levy from ECA for assistance in helping him to



locate men. Are we free to refer those and invoke your help on those problems?

The Chairman: I do not know that there is any record of achievement. I am speaking of any record of achievement that would justify you in thinking that you could get any results, but you can refer them. I do want to ask Mr. Levy this. This is an immediate thing with you. It is tomorrow; not today?

Mr. Levy: It is tomorrow even if we get a man today. He has to be checked by the FBI and processed by the Civil Service Commission and then I can hope for him in three weeks at the earliest. Then the man has to move. That is a problem, too. So even if I get a man tomorrow, I would have to wait three weeks until I can have him answer some telephone calls.

The Chairman: Are there any further questions?

This is a very vital matter.

Gentlemen, this completes the order of business. Is there any business for the Council to take up? If not, a motion to adjourn is in order.

(The motion was duly made and seconded.)

The Chairman: The meeting is now closed.

(Whereupon, at 5:00 o'clock p.m. the meeting was CLOSED.)

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